

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

Report of Association Examination

of

SAFeway INSURANCE COMPANY OF ALABAMA, INC.

Vestavia Hills, Alabama

as of

December 31, 2000

Participation:

Southeastern Zone, NAIC
Alabama

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**STATE OF ALABAMA
COUNTY OF JEFFERSON**

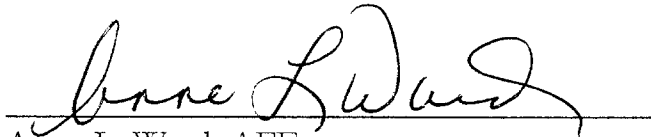
Anne L. Ward, being first duly sworn, upon her oath deposes and says:

THAT she is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

THAT an examination was made of the affairs and financial condition of *SAFeway INSURANCE COMPANY OF ALABAMA, INC.*, for the period from January 1, 1996 through December 31, 2000;

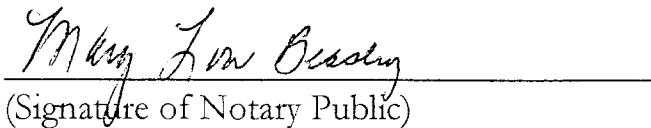
THAT the following 41 pages attached thereto, constitute the report to the Commissioner of Insurance of the State of Alabama; and

THAT the statements, exhibits and data therein contained are true and correct to the best of her knowledge and belief.



Anne L. Ward, AFE
(Examiner-in-Charge)

Subscribed and sworn to before the undersigned authority this 19th day of April, 2002.


(Signature of Notary Public)

MARY LOU BEASLEY Notary Public
(Print Name)

in and for the State of Alabama

My commission expires MY COMMISSION EXPIRES 02-28-2005



DON SIEGLEMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
FINANCIAL/EXAMINATION DIVISION

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April 19, 2002

Honorable Diane Koken
Chairman, Examination Oversight Committee
Commissioner, Pennsylvania Insurance Department
1326 Strawberry Square
Harrisburg, PA 17120

Secretary, Southeastern Zone
Honorable Alfred W. Gross
Commissioner, Virginia Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

Honorable D. David Parsons
Commissioner of Insurance
State of Alabama, Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, Alabama 36130-3351

Dear Commissioners:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a full scope financial examination as of December 31, 2000, has been made of the affairs and financial condition of

SAFEWAY INSURANCE COMPANY OF ALABAMA, INC.

at its home office located at 100 Williamsburg Office Park, Vestavia Hills, Alabama 35216. The report of examination is submitted herewith.

Where the description "Company" appears herein, without qualification, it will be understood to indicate *Safeway Insurance Company of Alabama, Inc.*

SCOPE OF EXAMINATION

A full scope financial examination was authorized pursuant to the instructions of the Alabama Insurance Commissioner and in accordance with the statutory requirements of the *Alabama Insurance Code* and the regulations and bulletins of the State of Alabama, Department of Insurance; in accordance with the applicable guidelines and procedures promulgated by the National Association of Insurance Commissioners (NAIC); and in accordance with generally accepted examination standards.

The Company was last examined for the five-year period ended December 31, 1995. The current examination covers the intervening period from January 1, 1996, through December 31, 2000, and was conducted by examiners from the Alabama Department of Insurance, and representing the NAIC's Southeastern Zone. Where deemed appropriate, transactions subsequent to December 31, 2000, were reviewed.

The examination included a general review of the Company's operations, administrative practices, and compliance with statutes and regulations. Corporate records were inspected. Income and disbursement items for selected periods were tested. Assets were verified and valued, and all known liabilities were established or estimated as of December 31, 2000, as shown in the financial statements contained herein. However, the discussion of assets and liabilities contained in this report has been confined to those items which resulted in a change to the financial statements, or which indicated a violation of the *Alabama Insurance Code* and the Insurance Department's rules and regulations or other insurance laws or rules, or which were deemed to require comments and/or recommendations.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attests to have valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2000. A signed letter of representation was also obtained at the conclusion of the examination whereby management represented that, through the date of this examination report, complete disclosure was made to the examiners regarding asset and liability valuation, financial position of the Company, and contingent liabilities. An office copy of the Company's filed *Annual Statement as of December 31, 2000*, was compared with or reconciled to account balances with respect to ledger items.

The market conduct phase of the examination consisted of a limited review of the Company's territory, plan of operation, advertising and marketing, treatment of policyholders and claimants, and compliance with agents' licensing requirements.

ORGANIZATION AND HISTORY

The Company was incorporated under the laws of the State of Alabama, and on March 24, 1988, the *Articles of Incorporation* were filed for record in the office of the Judge of Probate of Montgomery County, Alabama.

According to Article III of the *Articles of Incorporation*, the purpose for which the corporation was organized was "to include the transaction of any and all lawful business for which Corporations may be incorporated under the Alabama Business Corporations Act. The main purpose of the Corporation shall be to write and issue policies of: (1) property insurance, (2) casualty insurance, (3) surety insurance, (4) marine insurance, and (5) wet marine and transportation insurance, as those terms are now or hereafter define by the laws of the State of Alabama."

Article IV of the *Articles of Incorporation* provided that the authorized capital of the corporate was \$1,000,000, represented by 1,000,000 shares of common capital stock with the par value of \$1 per share. The Company commenced business on October 1, 1988, with a minimum capitalization of \$3,000,000, consisting of \$1,000,000 paid-in capital and \$2,000,000 paid-in surplus, derived from the issuance of 1,000,000 shares of common stock at a subscription price of \$3 per share.

At a special meeting of the Board of Directors on March 23, 1991, the *Articles of Incorporation* were amended to increase the aggregate number of shares of authorized common stock to 3,000,000 shares, with a par value of \$1 per share. On December 31, 1991, the parent company invested an additional \$6,000,000, in the Company. The transaction was accounted for by crediting *Common capital stock* for \$2,000,000, and *Gross paid in and contributed surplus* for \$4,000,000, which increased *Common capital stock* to an aggregate \$3,000,000, and *Gross paid in and contributed surplus* to \$6,000,000. No changes were made to the Company's capital and surplus during the five-year examination period.

At the December 31, 2000 examination date, the Company's Annual Statement reflected outstanding *Common capital stock* totaling \$3,000,000, consisting of 3,000,000 shares of \$1 par value common stock; *Gross paid in and contributed surplus* of \$6,000,000; and \$3,306,211 in *Unassigned funds (surplus)*.

MANAGEMENT AND CONTROL

Stockholders

The Company was a stock corporation with ultimate control vested in its stockholders. The ultimate controlling person was Mr. Robert Parrillo, as Trustee of the Robert Parrillo Trust. Mr. Parrillo, as Trustee, owned 45.32% of the issued and outstanding shares of stock of Safeway Insurance Company, an Illinois corporation (SIC-IL). At December 31, 2000, one hundred percent (100%) of the Company's issued and outstanding common stock was owned by SIC-IL.

Board of Directors

The By-Laws of the Company provided that its business and affairs shall be managed by a Board of Directors. Article IV of the *Amended Corporate By-Laws*, adopted on December 30, 1991, set the number of directors at "not less than three (3) nor more than nine (9), the exact number of which shall be fixed by the stockholders."

The members of the Board of Directors that were serving at December 31, 2000, were as follows:

<u>Name/Residence</u>	<u>Principal Occupation</u>
William Joseph Parrillo Oak Brook, Illinois	President, and Chairman Safeway Insurance Company
Robert Malcolm Bordeman Hinsdale, Illinois	Chief Executive Officer Safeway Insurance Company
Robert Paul Wise Birmingham, Alabama	Vice President, and Claims Manager Safeway Insurance Company of Alabama, Inc.

Officers

Officers elected by the Board of Directors and serving at December 31, 2000, were as follows:

<u>Name</u>	<u>Title</u>
Robert Malcolm Bordeman	President and Treasurer
William Giles Parrillo	Secretary

William Joseph Parrillo
Robert Paul Wise

Vice President
Vice President

Management and Operating Agreements (Unaffiliated)

General Agency Agreement:

Trigon, Inc.(Trigon), and the Company entered into a *General Agency Agreement* on September 1, 1997. The mutual covenants of this agreement were described therein, affirming that the Company appoint Trigon as its general agent. Trigon has the right to market, underwrite, process and administer insurance contracts on behalf of the Company. This right is made subject to underwriting rules and guidelines issued by the Company, and regulations of the states in which the two parties are authorized to act. The mutual covenants included: Authority of Trigon, Commission, General Agreements, Notification of Legal Proceedings, Processing of Claims, Termination of Suspension, Agency Sale or Transfer, Arbitration, Indemnification and Conditions.

Commercial Lease Agreement:

On January 30, 1998, the Company entered into a Commercial Lease agreement with Mutual Properties, an Alabama General Partnership as Landlord, and Leitman-Pearlman as agent for landlord. Said agreement was for a term of five years, beginning on April 1, 1998, and terminating on March 31, 2003. The annual rent paid to agent on behalf of the Landlord was \$105,570. The lease was made subject to certain terms, conditions and covenants. The Landlord agreed to keep the Company in possession of said premises during lease term; however, the Landlord shall not be liable for the loss of use by eminent domain nor the failure or ability of the Company to obtain possession. The Landlord shall exercise due diligence and effort to place the Company in possession. The agreement shall not be interpreted as a warranty that grants the premises is in good condition or is suitable for the purposes of the tenant. The Company shall not sublease, assign or transfer the lease without consent from Landlord. The Company agreed to maintain, at its own expense, liability insurance in the amount of at least \$1,000,000. This coverage was sustained by the Company through its parent company's umbrella insurance policy.

CORPORATE RECORDS

The Company's Certificate of Incorporation, By-Laws and related amendments were inspected and found to provide for the operation of the Company in accordance with usual corporate practices.

Pursuant to Sections 10-2B-10.07 and 10-2B-10.20 of the *Alabama Business Corporations*

Act, the Company amended and restated its Articles of Incorporation and By-Laws on December 31, 1991, and December 30, 1991, respectively. The documents were filed appropriately with the Alabama Department of Insurance.

There were no changes to the Company's *Articles of Incorporation* and *By-Laws* during the examination period.

It was noted that in 1999, the Company did not hold its annual meeting of the stockholders in either Montgomery or Birmingham, Alabama, in accordance with its *Articles of Incorporation*. The prior examination report as of December 31, 1995, recommended that the Company comply with its *Articles of Incorporation*, by conducting its annual meetings in the prescribed locations.

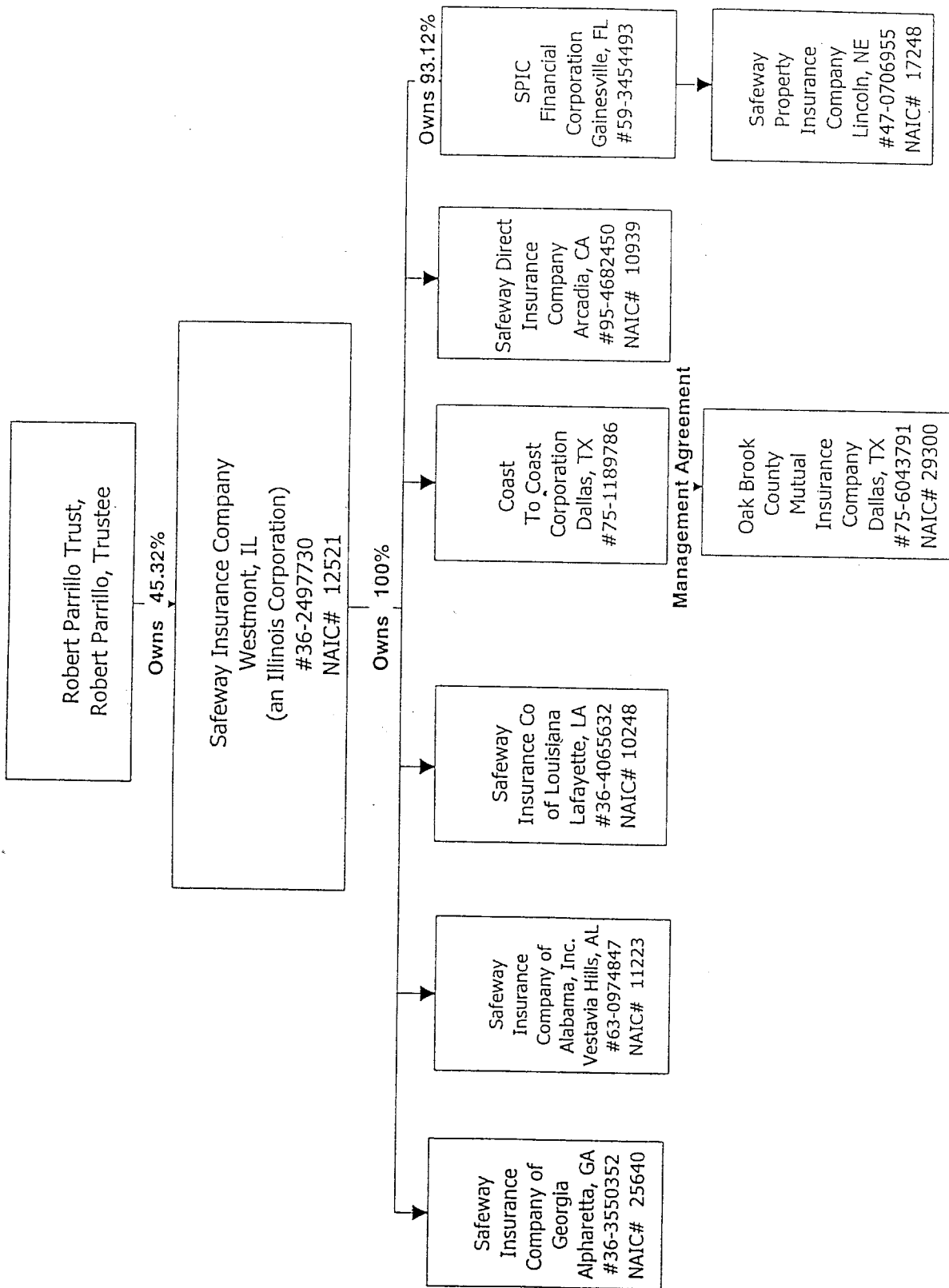
HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration

The Company was subject to the *Alabama Insurance Holding Company Regulatory Act*, as defined in Section 27-29-1, *Code of Alabama 1975*, as amended. In connection therewith, the Company was registered with the Alabama Department of Insurance as Registrant of an Insurance Holding Company System. Appropriate filings required under the Holding Company Act were made from time to time by the Company. A review of the Company's filings during the period under examination indicated that all required filings were made in accordance with the aforementioned section of the *Alabama Insurance Code* and Alabama Department of Insurance *Regulation No. 55*.

Organizational Chart

The following chart presents the identities of and interrelationships among all affiliated persons within the Insurance Holding Company System at December 31, 2000:



Transactions and Agreements with Affiliates

Management and Service Agreement:

This agreement was entered into on January 1, 1992, for a five-year period expiring December 31, 1996. (See additional information on this matter in the "Cost Allocation Agreement" discussion, later in this section.) The agreement provided that Safeway Insurance Company, the parent, would furnish management and related services to the Company. The Company agreed to pay the proportionate share of costs and expenses incurred for such services in proportion to the total premiums written by the Safeway Group for the following services:

- Supervision, management and operation of business by the officers and directors of Safeway Insurance Company
- Performance of actuarial, financial or forms management services for the operation of the Safeway Group
- Fees for legal services related to corporate matters for the Safeway Group as a whole
- Other expenses (travel and lodging) related to the performance of corporate functions of the Safeway Group by officers, directors, and employees of Safeway Insurance Company.

The following items were to be shared in accordance with generally accepted accounting practices:

- Employee retirement contributions determined by the Board of Directors of Safeway Insurance Company from the results of the operating performance by the Safeway Group as a whole.
- Employee benefits, or similar expenses, resulting from the operating performance of the Safeway Group as a whole
- Federal Income Taxes
- Any other expenses not prescribed will be submitted for approval to the Board of Directors of each respective company as to the necessity of such service and manner of allocation of such expense.

It was noted that this agreement had not been filed for approval with the Alabama Department of Insurance as required by Section 27-29-5, Code of Alabama 1975, as amended, and Departmental *Regulation No. 55*.

Tax Allocation Agreement:

The Company entered into a *Tax Allocation Agreement* on July 31, 1998, along with its affiliated members and the parent company. Together, the parties agreed to file their tax returns on a consolidated basis. Members agreed that the tax liability would be “apportioned among them in accordance with the provisions of regulation 1.1552-1(a)(2) and regulation 1.1502-33(d)(3).” Within 30 days after filing, any liability or benefit will be paid to or by that member. Any adjustment of tax liability will be payable to or from any member within 30 days after recalculation. Any loss or credit due to a member, which is carried back or forward to a year that the member filed a separate return or different consolidated return, it will be subject to 172(b)(3) of the *Internal Revenue Code*. Any acquisition or organization made by the parent or any subsidiary shall be subject to said agreement and made part of it. The agreement will remain in effect until each and all of the members decide to terminate. Any payment or refund will be subject to said agreement for taxable periods occurring before termination. The agreement is binding to any successor to any of the parties, parent company or subsidiaries.

It was noted that the agreement was not approved by the Alabama Department of Insurance, and that the Company has been operating under this agreement since July of 1998. Management stated, after reviewing Section 27-29-5 of the *Alabama Insurance Code*, “we do not believe that the agreement falls within any of the categories as outlined by the statute.” Company officials indicated, however, that the agreement would be filed for approval in accordance with the above mentioned statute.

During the course of this examination, Company officials indicated that the group tax allocation agreement was in compliance with IRS statutes.

A detail discussion on this matter may be found under “NOTES TO FINANCIAL STATEMENTS” section under the caption *Note 6 – Federal and foreign income taxes*, elsewhere in this report.

Cost Allocation Agreement:

In 1996, the Company was operating under the *Management and Service Agreement*, discussed previously in this section. That agreement terminated on December 31, 1996. During the remaining years of the examination period, 1997-2000, no written agreement was in effect, but management indicated that the Company was operating under the conditions and terms of a “cost allocation agreement,” as described below.

The Company entered into a formal, written *Cost Allocation Agreement* with Safeway Insurance Company, its parent, on January 1, 2002, subsequent to the examination period. The Company agreed to pay an equitable share of costs and expenses for management and related services provided by the parent company. This agreement was prepared in accordance with NAIC Accounting Practices and Procedures SSAP No. 70, "Allocation of Expenses." Services provided included, but were not limited to:

- Management services in relation to supervision, management and operation of the Company
- Performance of investments, actuarial, data processing, financial and forms management services provided by employees of the parent company
- Legal Services related to corporate matters.

Expenses for services provided include:

- Salaries and employee benefits
- Any other expenses.

On September 24, 2001, the Company filed this agreement on a *Form D – Prior Notice of a Transaction*, in accordance with Alabama Department of Insurance *Regulation No. 55*. After several revisions, final approval was granted by the Commissioner on April 4, 2002.

It was noted that the Company paid the parent a total of \$3,868,896 for management, services and expenses during the five-year examination period. In 1996, the Company paid the parent \$325,000, for management and services rendered under the aforementioned *Management and Services Agreement*, which was not filed or approved by the State of Alabama Department of Insurance. Between 1997 and 2000, the Company paid the parent company a total of \$3,543,896, without benefit of a written management and service agreement. It was also noted that these amounts were not reported in *Schedule Y – Part 2* of the Company's Annual Statements filed during the five-year examination period in accordance with NAIC instructions thereto.

A detailed discussion on this matter may be found later in this section under *Dividends to stockholders*, and in the "NOTES TO FINANCIAL STATEMENTS" under the caption *Note 10 – Dividends to stockholders*.

Conflict of Interest

The *General Interrogatories* of the 1996, 1997, 1998, 1999 and 2000 Annual Statements

reported that the Company had established a procedure for disclosure of conflicts of interest of any officers, directors, trustees, or responsible employees. The Company's officers have executed a *Conflict of Interest Agreement* that states that each will not enter into agreements that could conflict with the best interests of the Company. Attached to the agreement should be any financial interest of the signed person and any family member, which may appear to be of concern.

During the examination, a familial relationship was revealed between the Company's President and the Vice President of Mesirow Financial, Inc., the investment company utilized by the Company. This information was not disclosed on any conflict of interest statement during the examination period.

The previous examination report recommended that the Company establish a formal conflict of interest policy for disclosure to its board of directors of any material interest or affiliation on the part of any of its officer, directors, or responsible employees. The Company is utilizing the *Conflict of Interest Agreement* as its conflict of interest policy and statement. Officers of the Company signed agreements only once during the five-year examination period. Company management stated that they have recently begun executing said agreements annually, requiring only the officers and directors to sign. Copies of the 2001 and 2002 agreements were also provided to the examiners. Conflict of interest policies and statements are necessary internal controls in insuring compliance with Section 27-27-26, Code of Alabama 1975, as amended.

Dividends to Stockholders

On March 27, 1998, pursuant to authority and approval granted by the Alabama Department of Insurance in accordance with Section 27-29-5(g) of the *Alabama Insurance Code*, the Company issued an extraordinary dividend in the amount of \$5,000,000, to its parent, Safeway Insurance Company, an Illinois corporation. No other dividends were declared nor paid during the five-year examination period.

As a result of this examination, however, \$1,160,880 in management fees was reclassified to *Dividends to stockholders*. A detailed discussion on this matter may be found previously under the "Management and Services Agreement" subtitle in this section, and in the "NOTES TO FINANCIAL STATEMENTS" section under the caption *Note 10 – Dividends to stockholder*, elsewhere in this report.

FIDELITY BONDS AND OTHER INSURANCE

At December 31, 2000, the Company was a named insured under a Financial

Institution Bond, issued by the Hartford Insurance Company of Illinois. The single loss limit liability of the bond was \$1,400,000, with a single loss deductible of \$25,000, which exceeded the minimum requirements for fidelity coverage as defined by NAIC guidelines.

The bond insured the Company against any loss through any dishonest or fraudulent act of employees committed anywhere and whether committed alone or in collusion with others.

In addition to the aforementioned financial institution bond, the Company was a named insured on several Safeway Insurance Corporation policies. The following coverages were maintained to protect the Company against hazards to which it may be exposed:

- Commercial Property Coverage
- Commercial Liability Coverage
- Commercial Automobile Coverage
- Employers Liability Insurance

The coverages and limits carried by the Company were reviewed during the course of the examination and appeared to adequately protect the Company's interest at the examination date.

It was noted that the certificates for the financial institution bond and other insurance were maintained in Chicago, Illinois, as part of policies covering Safeway Insurance Group and its subsidiaries. Section 27-27-29, Code of Alabama 1975, as amended, requires that:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs...”

The prior examination had also recommended that the Company maintain its fidelity bond and other insurance coverage in its home office in accordance with the above section.

EMPLOYEE AND AGENTS WELFARE

The Company's employees participate in the benefits package of the parent, Safeway Insurance Company, an Illinois corporation. The following benefits are offered to

qualified employees by the parent:

- Medical & Dental Insurance
- COBRA Insurance
- Profit Sharing & 401 (k) Savings Plan
- Short-Term Disability & Long-Term Disability
- Life Insurance
- Accidental Death and Dismemberment Coverage
- Other Insurance (Unemployment & Workers Compensation)
- Sick, Personal & Vacation Leave
- Holidays
- Leaves of Absences (jury duty, military, bereavement, disability, personal, FMLA, inability to work, school visitation)

SPECIAL DEPOSITS

In order to comply with the statutory requirements for doing business in the various jurisdictions in which it was licensed, the Company had the following securities on deposit with state authorities at December 31, 2000:

<u>Description</u>	<u>Par or Book Value</u>	<u>Statement Value</u>	<u>Market Value</u>
<i>Alabama</i>			
General Motors Corporation, 6.375%, due 05/2008	\$ 150,000	\$ 150,747	\$150,747
J.P. Morgan & Company, 5.75%, due 10/2008	150,000	142,731	142,731
Piedmont, South Carolina, 5.10%, due 01/2005	200,000	200,000	206,000
Sara Lee Corporation, 6.00%, due 01/2008	100,000	100,000	100,000
Union Camp Corporation, 6.50%, due 11/2007	102,070	102,070	97,450
Lauderdale & Flor Co. AL Health, 5.30%, due 07/2006	140,655	140,655	147,000
Money Market Account, Wachovia Bank, Atlanta, GA	<u>203,588</u>	<u>203,588</u>	<u>\$ 203,588</u>
<i>Total-Alabama</i>	<u>\$1,046,313</u>	<u>\$ 1,039,791</u>	<u>\$ 1,047,516</u>
<i>Arkansas</i>			
Cash	\$ <u>295,000</u>	\$ <u>295,000</u>	\$ <u>295,000</u>
<i>Total-Arkansas</i>	<u>\$ 295,000</u>	<u>\$ 295,000</u>	<u>\$ 295,000</u>
Total-Not All Policyholders	<u>\$ 1,341,313</u>	<u>\$ 1,334,791</u>	<u>\$ 1,342,516</u>
TOTALS	<u>\$1,341,313</u>	<u>\$ 1,334,791</u>	<u>\$ 1,342,516</u>

Confirmation of these deposits was obtained directly from the respective custodians.

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating growth and financial condition of the Company for the period under review:

<u>Period Ending</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Direct Premiums Written</u>	<u>Direct Losses Incurred</u>
12/31/2000*	\$23,671,935	\$11,365,724	\$12,306,211	\$16,888,487	\$7,568,145
12/31/1999	20,215,393	8,527,912	11,687,481	14,491,589	8,640,485
12/31/1998	20,023,569	10,403,606	9,619,962	19,725,767	12,013,708
12/31/1997	23,920,710	8,843,335	15,077,375	17,323,848	10,204,479
12/31/1996	22,251,864	7,249,074	15,002,790	13,779,143	8,892,591
12/31/1995*	21,826,768	6,189,755	15,637,013	13,167,820	7,533,324

* Per examination. Amounts for the remaining years were obtained from Company copies of filed Annual Statements.

MARKET CONDUCT ACTIVITIES

Territory

At the examination date, the Company was licensed to transact business in the following four states:

Alabama Arkansas Kentucky Tennessee

The Certificates of Authority for the respective jurisdictions were inspected for the period under review and found to be in order. Although the Company was licensed to write business in all the states, Alabama was the only state in which premiums were written during the examination period.

Plan of Operation

During the examination period, the Company concentrated on underwriting private passenger auto liability and auto physical damage insurance in the standard and non-standard markets. All of the Company's written premiums during the examination period were generated by Trigon, Inc. In accordance with the general agency agreement, Trigon, Inc., receives a commission of 22.5% on all direct premiums written. This agreement was discussed in detail in the "MANAGEMENT AND

CONTROL” section of this report under the *Management and Operating Agreements (Unaffiliated)* caption.

Advertising and Marketing

The Company does not have a formal advertising program. Trigon, Inc., has handled all marketing or advertising strategies on the Company's behalf for the last twelve years. The marketing efforts consisted of personal visits to retail agencies and an occasional informative bulletin.

The Company employs Trigon, Inc., whose responsibility is to sign up new producers and monitor the business production of existing producers. Trigon, Inc., appoints licensed producers/brokers and independent agents to solicit business on the Company's behalf. Each agency is provided with training materials and guidelines for marketing, underwriting, and rating policies. As of examination date, there were 156 producers/brokers and independent agents appointed by the Company. Management indicated that during the year 2001, the Company increased the number of agents. The increase in agents, combined with a reduction in the number of carriers distributing non-standard auto insurance, resulted in a 33% growth in written premiums. The Company does not have a plan to significantly increase the number of agents in Alabama, but the Company plans to remain competitively priced and to manage the agency force.

The Company writes business in monthly and six-month terms. All of the business is direct bill installment premium. The direct bill program charges a flat installment fee for billing the policyholder on a monthly basis.

Policy Forms and Underwriting Practices

At December 31, 2000, the Company only issued a personal auto policy. The coverages and limits to this policy are as follows:

<u>Coverage</u>	<u>Limits</u>
Bodily Injury	\$20,000/\$40,000 \$25,000/\$50,000
Property Damage	\$10,000/\$15,000
Medical	\$500 or \$1,000

Comprehensive Deductible	\$100, \$250, \$500, \$1,000
Collision Deductible	\$100, \$250, \$500 \$1,000
Uninsured Motorists	\$20,000/\$40,000 \$25,000/\$50,000

Examiners representing the Alabama Department of Insurance conducted a Market Conduct Examination as of September 30, 2000. That examination noted the Company had not received approval from the Department of Insurance for certain forms and endorsements. The Company filed the forms for approval, which were approved subsequent to the examination period.

Treatment of Policyholders and Claimants

An inspection of the Company's Complaint Register was made by examiners and compared with complaints recorded by the Consumer Division of the Alabama Department of Insurance.

The following numbers were reflected in the Company's Complaint Register for the period under examination:

<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
18	20	14	9	12

Complaints and inquiries were found to be principally due to misunderstandings of policy provisions and benefits and concerning claim payments. The review demonstrated an endeavor by the Company to equitably discharge its contractual obligations and to resolve policyholders complaints in a timely manner.

Compliance with Agents' Licensing Requirements

The examiners made an inspection of the Company's records to determine if agencies representing the Company were properly licensed, and the agents within the agencies were duly appointed by the State of Alabama. A register of licensed agents was obtained from the Agents' Licensing Division of the Alabama Department of Insurance and compared to a current list of agents provided by the Company. The review did not reveal any discrepancies, and determined that each agent was properly appointed.

A review was made to determine that agencies receiving commissions from the Company had a properly licensed agent. A sample of individuals who received commission payments during 2000 was selected and verified to the register of licensed agents obtained from the Alabama Department of Insurance. The review disclosed no evidence that unlicensed agents were receiving commissions.

Other Matters

A comprehensive market conduct examination covering the period from January 1, 1998, through September 30, 2000, was conducted by examiners contracted by the Alabama Department of Insurance. The purpose of this market conduct examination was to determine the Company's ability to fulfill its obligations, the nature of its operations, the treatment of its policyholders, and its compliance with specific sections of the *Alabama Insurance Code* and Alabama Insurance Departmental regulations. The examination report, as of September 30, 2000, was filed with the Commissioner of the Alabama Department of Insurance on February 5, 2001.

REINSURANCE

The Company did not assume or cede any business as reinsurance during the five-year examination period.

ACCOUNTS AND RECORDS

The Company's accounting records were maintained primarily on electronic data processing (EDP) equipment. Management, accounting, and record-keeping functions were performed by personnel and facilities of the parent, Safeway Insurance Company, an Illinois corporation, under the *Cost Allocation Agreement* discussed previously in this report. All personnel in the accounting department of the parent company share the duties of financial record keeping and the preparation of financial statements, including the Company's Annual Statements.

The Company was audited by the independent certified public accounting (CPA) firm of Deloitte & Touche, LLP, Chicago, Illinois, for the period 1997-2001, and by CPA firm of Schwartz, Frumm & Millman, LLP in 1996. The CPA workpapers indicated that the Company was audited as part of the consolidated holding company. Most reviews were roll-forwards and reasonableness tests. No testing of internal controls was documented as related to the Company. No substantive testing was identified

that could be utilized in the examination. The reports generated by the CPAs were made available to the examiners and were used where deemed appropriate. The examiners encountered difficulty in obtaining the CPA's workpapers from the Company's independent auditors. Information was requested on November 5, 2001, and not received in its entirety until February of 2002. In accordance with NAIC Annual Statement Instructions, the CPAs are required to make available for review by domiciliary department examiners all workpapers prepared in the conduct of their annual audits. In addition, Alabama Department of Insurance *Regulation No. 118*, requires insurers to provide a response to written information requests "within ten (10) working days." The Company was unable to provide the 1996 CPA workpapers.

The reserve calculations for 2000 were certified by the Company's actuarial consultant, Ms. Rita Zona, CAS, MAAA. The actuarial workpapers were provided from Illinois and were not maintained in the Company's principal office in the State of Alabama, as is required by Section 27-27-29, Code of Alabama 1975, as amended.

It was noted that certain records, supporting documentation, and workpapers reflecting the Company's operations and financial position were physically located at the offices of the Company's parent in Chicago, Illinois. When said records and workpapers were requested by the examiners, the information was FAXed, E-mailed, or delivered by postal service to the Alabama office. These records included, but were not limited to, the following:

- Company's opining actuarial statement for 1997.
- Conflict of interest agreements.
- CPA's report for the year 1998.
- Certificate of authority from the State of Tennessee.
- Employee's handbook (employee welfare).
- Fidelity bond and other insurance policies.
- Form B filings.
- Cash receipts journal.
- Cancelled checks.
- Agents' commission reports.
- Detail and reconciliations of *Schedule P*.
- Federal income tax returns.

It was also noted that the Company was unable to provide copies of its filings for unclaimed property during the examination period. A copy of the unclaimed property filing for accounting year 1998, was ultimately obtained directly from the Alabama

State Treasurer. Also see "NOTES TO FINANCIAL STATEMENTS," *Note 7 – Amounts withheld or retained by company for the account of others*, elsewhere in this report. Section 27-27-29(a), Code of Alabama 1975, as amended, provides as follows:

"Every domestic insurer shall have, and maintain its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs..."

Detailed discussions and additional commentary on all of these matters may be found in the "NOTES TO FINANCIAL STATEMENTS" and "COMMENTS AND RECOMMENDATIONS" sections of this examination report, under the specific captions to which they pertain.

FINANCIAL STATEMENTS INDEX

The Financial Statements included in this report were prepared on the basis of the Company's records, and the valuations and determinations made during the examination for the year 2000. Amounts shown in the comparative statements for the years 1996, 1997, 1998, and 1999, were compiled from Company copies of filed Annual Statements. The statements are presented in the following order:

	<u>Page</u>
Statement of Assets	20
Statement of Liabilities, Surplus and Other Funds	21
Statement of Income	22
Capital and Surplus Account	23

**FAILURE OF FINANCIAL STATEMENTS TO BALANCE TO
INDICATED TOTALS IS DUE TO ROUNDING.**

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL
STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART
THEREOF.**

SAFeway INSURANCE COMPANY OF ALABAMA, INC.

STATEMENT OF ASSETS

For the Year Ended December 31, 2000

	<u>Assets</u>	<u>Non- admitted Assets</u>	<u>Net Admitted Assets</u>	<u>Prior Year Net Admitted Assets</u>
Bonds (Note 1)	\$20,306,293	\$	\$20,306,293	\$18,314,044
Cash (\$1,289,570) and short-term investments (\$498,621)	<u>1,788,191</u>	<u>0</u>	<u>1,788,191</u>	<u>1,153,229</u>
Subtotals, cash and invested assets	\$22,094,484	\$ 0	\$22,094,484	\$19,467,273
Agents' balances or uncollected premiums:				
Premiums and agent's balances in course of Collection (Note 2)	1,242,550		1,242,550	448,830
Premiums, agent's balances and installments booked but deferred and not yet due (Note 2)				
Electronic data processing equipment	26,443	26,443		
Interest, dividends and real estate income due and accrued	334,901		334,901	299,290
Other assets nonadmitted:				
Furniture, equipment and supplies	20,978	20,978		
Aggregate write-ins for other than invested assets:				
Deposit with Lessor	<u>8,798</u>	<u>8,798</u>	<u>0</u>	<u>0</u>
TOTALS	<u>\$23,728,154</u>	<u>\$ 56,219</u>	<u>\$23,671,935</u>	<u>\$20,215,393</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.

SAFEWAY INSURANCE COMPANY OF ALABAMA, INC.
STATEMENT OF LIABILITIES, SURPLUS AND OTHER FUNDS
For the Year Ended December 31, 2000

	<u>Current</u> <u>Statement Date</u>	<u>December 31,</u> <u>Prior Year</u>
LIABILITIES		
Losses (Note 3)	\$ 5,159,736	\$ 4,338,274
Loss adjustment expenses (Note 3)	1,996,165	1,626,635
Contingent commissions and other similar charges (Note 4)		
Other expenses (Note 5)	176,773	143,378
Taxes, licenses and fees	254,626	131,789
Federal and foreign income taxes (Note 6)	265,487	175,000
Unearned premiums	2,347,065	1,232,490
Amounts withheld or retained by company for account of others (Note 7)		
Drafts outstanding (Note 8)	1,003,639	803,968
Payable to parent, subsidiaries and affiliates	28,192	10,880
Aggregate write-ins for liabilities:		
Commission payable (Note 9)	<u>134,041</u>	<u>65,498</u>
Total liabilities	<u>\$ 11,365,724</u>	<u>\$ 8,527,912</u>
SURPLUS AND OTHER FUNDS		
Common capital stock	\$ 3,000,000	\$ 3,000,000
Gross paid in and contributed surplus	6,000,000	6,000,000
Unassigned funds (surplus) (Note 11)	<u>3,306,211</u>	<u>2,687,481</u>
Surplus as regards policyholders	<u>12,306,211</u>	<u>11,687,481</u>
TOTALS	<u>\$ 23,671,935</u>	<u>\$ 20,215,393</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTERGRAL PART THEREOF.

SAFEWAY INSURANCE COMPANY OF ALABAMA, INC.

STATEMENT OF INCOME

For the Years Ended December 31, 2000, 1999, 1998, 1997 and 1996

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
<u>Underwriting income</u>					
Premiums earned	\$ <u>15,773,912</u>	\$ <u>15,062,518</u>	\$ <u>19,199,786</u>	\$ <u>16,768,245</u>	\$ <u>13,725,086</u>
<u>Deductions:</u>					
Losses incurred	\$ 8,389,607	\$ 7,813,165	\$ 12,933,476	\$ 10,675,421	\$ 8,684,706
Loss expenses incurred	2,303,831	1,376,511	2,132,419	2,138,761	2,106,427
Other underwriting expense incurred (Notes 10)	<u>4,090,351</u>	<u>4,527,497</u>	<u>5,863,162</u>	<u>5,244,045</u>	<u>4,110,905</u>
Total underwriting deductions	\$ <u>14,783,789</u>	\$ <u>13,717,173</u>	\$ <u>20,929,057</u>	\$ <u>18,058,227</u>	\$ <u>14,902,038</u>
Net underwriting gain or (loss)	\$ <u>990,123</u>	\$ <u>1,345,345</u>	\$ <u>(1,729,271)</u>	\$ <u>(1,289,982)</u>	\$ <u>(1,176,952)</u>
<u>Investment Income</u>					
Net investment income earned	\$ 1,217,560	\$ 1,079,003	\$ 1,101,785	\$ 1,246,924	\$ 1,206,792
Net realized capital gains or (losses)	<u>12,537</u>	<u>14,484</u>	<u>115,143</u>	<u>(2,999)</u>	<u>4,559</u>
Net investment gain (loss)	\$ <u>1,230,097</u>	\$ <u>1,093,487</u>	\$ <u>1,216,928</u>	\$ <u>1,243,925</u>	\$ <u>1,211,351</u>
<u>Other income</u>					
Net gain or (loss) from agents' or premium balances charged off	1,604	1,159	(98,047)		
Finance and service charges not included in premiums	<u>0</u>	<u>0</u>	<u>127,010</u>	<u>0</u>	<u>0</u>
Total other income	\$ <u>1,604</u>	\$ <u>1,159</u>	\$ <u>28,963</u>	\$ <u>0</u>	\$ <u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes	\$ 2,221,824	\$ 2,439,991	\$ (483,380)	\$ (46,057)	\$ 34,399
Federal and foreign income taxes Incurred	<u>448,282</u>	<u>402,512</u>	<u>(84,356)</u>	<u>(134,458)</u>	<u>(48,085)</u>
NET INCOME	\$ <u>1,773,542</u>	\$ <u>2,037,470</u>	\$ <u>(399,024)</u>	\$ <u>88,401</u>	\$ <u>82,484</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTERGRAL PART THEREOF.

SAFeway INSURANCE COMPANY OF ALABAMA, INC.
CAPITAL AND SURPLUS ACCOUNT
For Years Ended December 31, 2000, 1999, 1998, 1997 and 1996

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
CAPITAL AND SURPLUS ACCOUNT					
Surplus as regards policyholders, December 31, prior year	\$ <u>11,687,481</u>	\$ <u>9,619,962</u>	\$ <u>15,077,375</u>	\$ <u>15,002,790</u>	\$ <u>15,637,013</u>
GAINS AND (LOSSES) IN SURPLUS					
Net income	\$ 1,773,542	\$ 2,037,479	\$ (399,024)	\$ 88,401	\$ 82,484
Change in nonadmitted assets	6,068	30,040	(58,389)		14,064
Dividends to stockholders (cash) (Note 10)	(1,160,880)	0	(5,000,000)	(13,816)	0
Extraordinary amounts of taxes for prior years					(97,771)
Aggregate write-ins for gains and losses in surplus:					
Cumulative effect of change in accounting policy	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(633,000)</u>
Change in surplus as regards policyholders for the year	\$ <u>618,730</u>	\$ <u>2,067,519</u>	\$ <u>(5,457,413)</u>	\$ <u>74,585</u>	\$ <u>(634,223)</u>
Surplus as regards policyholders, December 31 current year	\$ <u>12,306,211</u>	\$ <u>11,687,481</u>	\$ <u>9,619,962</u>	\$ <u>15,077,375</u>	\$ <u>15,002,790</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTERGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1 – Bonds

\$20,306,293

The captioned amount is the same as reported in the Company's Annual Statement as of December 31, 2000.

A review of the Company's acquisitions of bonds determined that the Company recorded the settlement date on *Schedule D – Part 3*, instead of the trade date.

Paragraph 4 of *SSAP No. 26*, of the NAIC's Accounting Practices and Procedure Manual (AP&P Manual) states, in pertinent part, that:

“A bond acquisition or disposal shall be recorded on the trade date, not the settlement date...”

It was noted that the above referenced AP&P Manual became effective on January 1, 2001, subsequent to the examination date.

During the course of this examination, Company management indicated that no evidence was maintained to support the continued eligibility of Provisionally Exempt (PE) assets. The NAIC's Security Valuation Office requires an insurer to maintain a record supporting its decision to list an asset as PE, including the terms of the security, documents verifying the security's rating, and documents evidencing the continued monitoring of the position.

Note 2 – Agents' balances or uncollected premiums:

<u>Premiums and agents' balances in course of collection</u>	<u>\$1,242,550</u>
<u>Premiums, agents' balances and installments booked</u>	
<u>but deferred and not yet due</u>	<u>\$ 0</u>

The captioned amounts are the same as reported in the Company's 2000 Annual Statement.

The \$1,242,550 (asset) reported in the Annual Statement was \$98,707 less than the \$1,341,270 amount produced by various policyholders balances reports, which were made available to the examiners. No change was made to the reported amount because of compensating errors totaling \$110,054, resulting in a net difference of

\$11,347, which was not material.

The \$1,242,550 reported under *Premiums and agents' balances in course of collection* contained installment billing booked by the Company. According to the NAIC Annual Statement Instructions for Property & Casualty companies, installment billings booked by the Company are reported on page 2, line 10.2 of the Annual Statement. The examiners did not reclassify the amount to line 10.2, because it would have no effect on the surplus of the Company.

A listing of agents' balances, which included installment booked and aging of the balances, was requested from the Company. Management indicated that the Company's EDP system did not produce a listing of agents' balances. Section 27-27-29, Code of Alabama 1975, as amended, requires that the Company maintain "complete records of its assets, transactions and affairs..." These records should include electronic details of all items that are maintained on the Company's computer system.

Note 3 – Losses	<u>\$5,159,736</u>
<u>Loss adjustment expenses</u>	<u>\$1,996,165</u>

The captioned amounts are the same as those reported by the Company in its 2000 Annual Statement. During the review of records provided by the Company, the examiners noted several irregularities, which are discussed in detail following.

The actuarial examiners reviewed the Company's *Statement of Actuarial Opinion* as of December 31, 2000, in order to establish that it conformed to NAIC Annual Statement Instructions.

It was noted that the actuary listed in item #35 of the Annual Statement *General Interrogatories* was not the appointed actuary identified in the *Statement of Actuarial Opinion* as of December 31, 2000.

The actuarial examiners reviewed the actuarial report supporting the *Statement of Actuarial Opinion* to determine that the opining actuary's selected reserves from the actuarial report were consistent with the carried reserve levels of the Company. The actuary selected a range of Reserve Estimates, compared them to the carried reserves by the Company, and concluded that the Company's reserves fell within a range of reasonable estimates. Item 10 of the NAIC's *Statement of Statutory Accounting Principles No. 55*, states, in pertinent part:

“If, for a particular line of business, management develops its estimate considering a range of claim or loss and loss/claim adjustment expense reserve estimates bounded by a high and a low estimate, management’s best estimate of the liability within that range shall be recorded.”

The actuary did not identify a best estimate within the range. The actuarial examiners requested the Company’s calculations, and although various spreadsheets were provided, the actuarial examiners could not tie the results of the various calculations contained in the spreadsheet to the carried reserve levels of the Company. Given the inability to tie the Company’s calculations and in consideration of other data problems discussed below, the actuarial examiners elected to independently test the carried reserve levels using development data through year-end 2001.

The Company’s carried reserves were \$758,000 below the midpoint of the actuary’s range. The actuarial examiners compared the Company’s carried reserves to the midpoint of the actuary’s range as of December 31, 1998 and 1999. The results show that the Company’s carried reserves relative to the midpoint have been deteriorating as show below:

Valuation	Actuary’s Midpoint (\$000)	Company Carried (\$000)	Difference (\$000)
@12/31/1998	\$5,858	\$7,373	1,515
@12/31/1999	6,155	5,965	(190)
@12/31/2000	7,914	7,156	(758)

The opining actuary indicated that data was reconciled with Annual Statement *Schedule P*; however, no documentation of such a reconciliation was included in the report. Reconciliation workpapers were provided upon request. Paid losses and Defense and Cost Containment (DCC), as well as incurred losses and DCC, were reconciled. The paid losses and DCC reflected no material discrepancies, but incurred numbers used in the actuarial analysis were consistently higher than those shown in *Schedule P* for evaluations prior to December 31, 2000. The actuarial examiners showed that the incorporation of the corrected triangles resulted in changes. Given that reserve ranges were presented by the appointed actuary and the problems with the data, the actuarial examiners elected to review projections updated with data through December 31, 2001, to test the reasonableness of the carried reserves. The indicated ultimate loss and allocated loss expense using the later data as compared to the Company’s carried ultimate loss and loss adjustment expenses were compared in the following table:

	Indicated Ultimate Incurred Loss Development	Indicated Ultimate Paid Loss Development	Carried Ultimate (excluding Adjusting & Other Expenses)
Auto Liability 1991-2000	\$46,695,438	\$46,829,559	\$47,413,000
Auto Physical Damage 1999-2000	7,225,947	7,173,313	7,056,000
Total 1999-2000	\$53,921,385	\$54,002,872	\$54,469,000

Given the independent projections noted above and the appointed actuary's original work that was not affected by the errors in the incurred loss data, the actuarial examiners believe, in consideration of the other procedures the examiners performed, that the Company's carried reserve levels were reasonable.

Note 4 – Contingent commissions and other similar charges **\$ 0**

The captioned liability is the same as reported by the Company in its 2000 Annual Statement. This examination has determined that commissions payable in the amount of \$134,041, were reported under the *Aggregate write-ins for liabilities* caption on the balance sheet. It was noted that NAIC Annual Statement Instructions for 2001, requires this liability to be reported as "*Commissions payable, contingent commissions and other similar charges.*" Further discussion on this matter is included in this section under *Note 9 – Aggregate write-ins for liabilities: Commissions payable.*

Note 5 – Other expenses **\$176,773**

The captioned liability is the same as reported in the Company's 2000 Annual Statement. The examiners identified \$18,509 in expenses that were incurred, but the Company had not accrued the same at year-end. Due to immateriality, no changes were made to the financial statements in this report.

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Note 6 – Federal and foreign income taxes **\$265,487**

The captioned amount is the same as reported in the Company's 2000 Annual

Statement. The examiners requested and received a copy of the Company's Tax Allocation Agreement, and was discussed previously in the "MANAGEMENT AND CONTROL" section of this report. It was noted that the agreement was not approved by the Alabama Department of Insurance, and further, the Company had been operating under this agreement since July 31, 1998. When the examiners inquired why the Company had not filed the agreement with the Department, a company official responded by stating that "After having reviewed the applicable Alabama statute...we do not believe that the Agreement falls within any of the categories as outlined by the statute." Section 27-29-5(b), Code of Alabama 1975, as amended, states:

"...transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period."

Section 27-29-4(b)(3)h., Code of Alabama 1975, as amended, states:

"Every insurer subject to registration shall file a registration statement on a form provided by the commissioner which shall contain current information about...Consolidated tax allocation agreements."

Alabama Department of Insurance *Regulation No. 55*, sets forth rules and procedural requirements necessary to carry out the provisions of the *Alabama Insurance Holding Company System Regulatory Act*.

**Note 7 – Amounts withheld or retained by company
for account of others**

\$ 0

The captioned amount is the same as was reported by the Company in its 2000 Annual Statement.

The Company did not report the escheatable property in the amount of \$1,696 as a liability in its 2000 Annual Statement. The \$1,696 was for checks issued prior to December 31, 1995, and never cashed. Alabama Department of Insurance *Regulation No. 66*, states that:

"All unclaimed funds in the possession, or under the control of an insurer shall, at all times, be maintained as a liability on the books of the insurer.

This requirement shall remain in effect until the funds are claimed or transferred to the custody of the State of Alabama...”

The Company should have reported the amount as an liability under “*Amounts withheld or retained by the company on account of others*,” however, due to the immateriality of this item, a change to the financial statements was not made.

According to Section 35-12-31, Code of Alabama 1975, as amended, which states, in pertinent part:

“Every person holding funds or other property, tangible or intangible, presumed abandoned under this article shall report to the Treasurer with respect to the property and deliver the property to the Treasurer as hereinafter provided.”

The Company had not escheated unclaimed property for the years 1999 and 2000, and was, therefore, not in compliance with the above mentioned section of the *Alabama Insurance Code*.

The prior examination recommended that the Company establish and maintain a liability for unclaimed property until an appropriate time frame has elapsed to remit said funds to the Revenue department. It was also recommended the Company comply with Section 35-12-23, Code of Alabama 1975, as amended, relating to the remittance of funds to the Alabama Revenue Department five years after the moneys became due and payable.

Note 8 – Drafts outstanding

\$1,003,639

The captioned liability is the same as reported by the Company in its 2000 Annual Statement.

This examination has determined that the drafts outstanding listings provided by the Company were \$60,282 more than the \$1,003,639 reported on the balance sheet at year-end 2000. Due to the immateriality of the difference, no changes were made to the financial statements in this report.

Note 9 – Aggregate write-ins for liabilities:

Commission payable

\$134,041

The captioned amount is the same as was reported by the Company in its 2000 Annual Statement but \$67,148 less than the \$201,189 amount determined by this examination.

The line item contained amounts owed by the Company for commissions payable to its agents. Company management indicated that the commissions payable was accrued at the rate of fifteen percent, after a seven-and-a-half percent payment was made to Trigon, Inc., the Company's general agent. Accordingly, the recalculated commission payable was \$67,148 more than the \$134,041 reported in the Annual Statement. Due to the immateriality, no change was made in the financial statements of this report.

Note 10 – Dividends to stockholders

\$1,160,880

The referenced amount has been reclassified to this caption from administrative expenses (management fees) for the purposes of this examination. The reclassification has no affect on the Company's capital and surplus. It does, however, have the effect of increasing net income by decreasing administrative expenses on the *Statement of Income*. A corresponding decrease is reflected in the equity section of the balance sheet.

The examination has determined that the Company's *Cost Allocation Agreement* with its parent, Safeway Insurance Company, was not approved by the Alabama Insurance Commissioner in accordance with Section 27-29-5(b), Code of Alabama 1975, as amended. Said statute stipulates that:

“transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto...and the commissioner has not disapproved it within that period.”

It was noted that the previous examination report recommended that the Company obtain such approval. This matter has been discussed in detail in the “HOLDING COMPANY AND AFFILIATE MATTERS” section of this report under the *Transactions and Agreements with Affiliates* caption.

Since the Company did not have an approved management agreement in place during the examination period, payment of management fees was not appropriate. Consequently, the \$1,160,880 amount paid in 2000, to the parent company for management fees, was reclassified to dividends paid to the stockholder. It was also noted that management fees concerning all management agreements, service contracts, and all other cost sharing arrangements were not reported on *Schedule Y – Part 2* of the Annual Statement in accordance with NAIC instructions thereto.

It was noted that the *Cost Allocation Agreement*, executed by Company officers on January 1, 2002, was granted final approval by the Alabama Insurance Commissioner on April 4, 2002.

Note 11 - Unassigned funds (surplus)

\$3,306,211

The captioned amount is the same as reported in the Company's 2000 Annual Statement.

This examination had identified some immaterial differences, which have been reported in the NOTES TO FINANCIAL STATEMENTS section of this report. Due to the immateriality of the differences no changes were made to the financial statements in this report.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of contingent liabilities and pending litigation included an inspection of representations made by management, a review of a report to the independent CPAs on pending litigation made by Company counsel, and a general review of the Company's records and files conducted during the examination, including a review of claims. This review did not disclose items that would have a material affect on the Company's financial position in the event of an adverse outcome.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regard to the Company's compliance with recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with the prior recommendations with the exception of certain items listed below:

Management and Service Agreement with Parent

The previous examination report recommended that the Company file all management agreements, service contracts, and all cost-sharing arrangements with the Alabama Department of Insurance, thirty days prior to entering into said arrangements, in accordance with Section 27-29-5, Code of Alabama 1975, as amended. The Company did not comply with this recommendation.

Conflict of Interest

The examination report as of December 31, 1995, recommended that the Company establish a formal conflict of interest policy for disclosure to its board of directors of any material interest or affiliation on the part of its officer, directors, or responsible employees. The Company did not formulate a policy but did execute a *Conflict of Interest Agreement*, which was utilized as a conflict of interest policy and statement. Responsible or key employees were not required to sign an agreement; therefore, the Company had not complied with this recommendation in its entirety. The recommendation was also made in the December 31, 1990, *Report of Examination*.

Corporate Records

The previous examination report recommended that the Company comply with its *Articles of Incorporation*, which provide that the annual meeting of the stockholders be held in either Montgomery or Birmingham, Alabama. Because the 1999 meeting was held in Chicago, Illinois, the Company had not complied with this recommendation in its entirety during the examination period.

Fidelity Bond and Other Insurance

The prior examination recommended that the Company maintain its fidelity bond and other insurance coverage in its home office in accordance with Section 27-27-29, Code of Alabama 1975, as amended. This examination determined that the Company had not complied with this recommendation.

Accounts and Records

The examination report as of December 31, 1995, recommended that the Company maintain complete records of its assets, transactions and affairs in accordance with Section 27-27-29, Code of Alabama 1975, as amended. The Company did not comply with this recommendation.

Amounts withheld or retained by company for account of others

The previous examination report recommended that the Company establish and maintain a liability for unclaimed property until such time has elapsed to remit said funds to the Alabama Department of Revenue (ALDOR). The Company did not comply with this recommendation.

It was also recommended that the Company comply with Section 35-12-23, Code of Alabama 1975, as amended, relating to the remittance of funds to the ALDOR after five years after the moneys became due and payable. Because the forms for unclaimed property were not filed with the State Treasurer for 1999 and 2000, the Company had not complied with this recommendation in its entirety.

COMMENTS AND RECOMMENDATIONS

The following summary presents the comments and recommendation that are made in the current *Report of Examination*.

Corporate Records – Page 5

It is recommended that the Company comply with its *Articles of Incorporation*, which provide that the annual meeting of the stockholders shall be held in either Montgomery or Birmingham, Alabama. This recommendation was also made in the previous examination report.

Tax Allocation Agreement – Page 9

Cost Allocation Agreement – Page 9

It is recommended that the Company submit all management agreements, service contracts, and cost-sharing arrangements to the Alabama Department of Insurance in accordance with Section 27-29-5, Code of Alabama 1975, as amended, and Departmental *Regulation No. 55*. This is the second consecutive examination report that has made this recommendation.

It is recommended that amounts paid in association with management agreements and service contracts be reported in column 8 of *Schedule Y – Part 2* of the Company's Annual Statement in accordance with NAIC Annual Statement Instructions.

Conflict of Interest – Page 10

It is recommended that the Company establish a formal conflict of interest policy in order to disclose to its board of directors any material interest or affiliation on the part of any of its officers, directors, or responsible employees, which is in or is likely to conflict with the official duties of such person. This is the third consecutive examination report that has made this recommendation.

It is recommended that the Company have key and responsible employees sign conflict of interest statements, as suggested by the Annual Statement *General Interrogatories*.

It was noted that a familial relationship existed between the Company's President and

the Vice President of the investment company utilized by the Company. This information was not disclosed on any conflict of interest statement during the examination period. **It is recommended** that individuals with financial interest in or family members associated with affiliated organizations disclose this information in accordance with the *Conflict of Interest Agreement* and Section 27-27-26, Code of Alabama 1975, as amended.

Fidelity Bond and Other Insurance – Page 11

It is recommended that the Company maintain documentation of fidelity bond and other insurance coverages in its home office in accordance with Section 27-27-29, Code of Alabama 1975, as amended.

Accounts and Records – Page 17

It is recommended that the Company comply with Section 27-27-29(a), Code of Alabama 1975, as amended, and maintain complete copies of all records pertaining to the Company's operations at its home office within the State of Alabama. This recommendation was also made in the examination reports as of December 31, 1990, and December 31, 1995.

It is recommended that the Company comply with Alabama Department of Insurance *Regulation No. 118*, by providing responses within ten working days regarding information requested by personnel representing the Alabama Department of Insurance.

Bonds – Page 24

It is recommended that, in future Annual Statements, the Company record acquisitions of bonds in accordance with the NAIC's Accounting Practices and Procedures Manual, *SSAP No. 26*, paragraph 4.

It is recommended that the Company maintain evidence, updated at least quarterly, supporting continued eligibility for Provisionally Exempt status on all investments which have been so designated, in accordance with guidelines established by the NAIC's Securities Valuation Office.

Agent's balances or uncollected premiums:

Premiums and agents' balances in course of collection – Page 24

Premiums, agents' balances and installments booked but deferred and not yet due – Page 24

It is recommended that the Company report installment billings booked on asset line 10.2 of the Annual Statement in accordance with NAIC Annual Statement Instructions.

It is recommended that the Company comply with Section 27-27-29, Code of Alabama 1975, as amended, by maintaining complete records of its agents' balances. These records should include electronic details of agents balances that are maintained on the Company's computer system

Losses – Page 25

Loss adjustment expenses – Page 25

It is recommended that the Company list the proper appointed actuary in its Annual Statement *General Interrogatories* as identified in the *Statement of Actuarial Opinion*.

It is recommended that, in the future, the Company's actuary perform a complete reconciliation of the actuarial database to Annual Statement *Schedule P* in the course of the analysis.

It is also recommended that reconciliation workpapers be included with the actuarial report and/or workpapers that support the *Statement of Actuarial Opinion*.

It is recommended that management record its best estimate of its liabilities for unpaid loss and loss adjustment expenses in accordance with NAIC *SSAP No. 55*.

It is recommended that if management determines that for a particular line of business there is no "best estimate" in a range of reasonable estimates, then management should record the midpoint of the range in accordance with NAIC *SSAP No. 55*.

Contingent commissions and other similar charges – Page 4

Commissions payable – Page 30

It is recommended that the Company accurately accrue commissions for amounts it

owes to the agents at year-end.

Other expenses – Page 27

It is recommended that the Company establish adequate accruals (for obligations not yet paid) in its financial statements in accordance with NAIC Annual Statement Instructions.

This space intentionally left blank

Federal and foreign income taxes – Page 27

It is recommended that the Company comply with Section 27-29-5(b), Code of Alabama 1975, as amended, which states that “transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit.”

It is further recommended that the Company comply with Alabama Department of Insurance *Regulation No. 55*, and submit the tax allocation agreement to the Department of Insurance for approval by the Commissioner.

Amounts withheld or retained by company for account of others – Page 28

It is recommended that the Company establish and maintain a liability for unclaimed property until the appropriate time frame has elapsed to remit said funds to the Alabama Department of Revenue , in accordance with Alabama Department of Insurance *Regulation No. 66*.

It is recommended that the Company comply with Section 35-12-31, Code of Alabama 1975, as amended, relating to the remittance of unclaimed funds to the ALDOR five years after the moneys became due and payable.

It was noted that similar recommendations were made in the previous examination

report.

Draft outstanding – Page 29

It is recommended that the Company accurately report its liability for *Drafts outstanding* in its Annual Statement in accordance with NAIC instructions thereto.

Dividends to stockholders – Page 30

It was noted that because the Company did not have an effective management agreement in place during the examination period, management fees paid in accordance with that agreement were not appropriate. Consequently, payments for management fees and administrative expenses reported on the 2000 Annual Statement were reclassified to *Dividends to stockholders* for the purposes of this examination.

SUBSEQUENT EVENTS

Accounting Changes

Effective January 1, 2001, the State of Alabama required that Alabama-domiciled insurance companies prepare their statutory basis financial statements in accordance with the NAIC's Accounting Practices and Procedures Manual (AP&P Manual), subject to any deviations prescribed or permitted by the Insurance Commissioner of State of Alabama.

In item 2.B., of its 2001 Annual Statement *Notes to Financial Statements*, the Company reported the following:

“Accounting changes adopted to conform to the provisions of the NAIC Accounting Practices and Procedure manual – Version effective January 1, 2001 are reported as changes in accounting principles. The cumulative effect of changes in accounting principles is reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. The cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods. As a result of these changes, the Company reported a change of accounting principle, as an adjustment that increased unassigned funds (surplus), of

\$1,223,817 as of January 1, 2001. Included in this total adjustment is an increase in unassigned funds of \$848,000 related to anticipated salvage and subrogation and an increase in unassigned funds of \$356,151 related to deferred tax assets.”

Rate Increase

A rate filing submission was filed by the Company with the Commissioner of Alabama Department of Insurance on November 21, 2001. A public hearing was held at the offices of the Alabama Department of Insurance on March 5, 2002. No evidence was submitted from any member of the public in opposition to the proposal as filed by the Company, and accordingly, the Commissioner ordered that the overall proposed changes be approved. The new rates became effective April 15, 2002. The new rate filing expanded the classification structure from 9 to 27. The overall rate increase is 6.7%, and is detailed as followings:

- Bodily injury - 7.8%; 2.6% increase over prior
- Physical damage - 6.1%; 2.9% increase over prior
- Comprehensive - 14.3%; 0.7% increase over prior
- Collision - 7.0%; 0.5% increase over prior

Approval of Cost Allocation Agreement

The *Cost Allocation Agreement* between Safeway Insurance Company, an Illinois corporation, and the Company was filed on a *Form D* (Prior Notice of a Transaction) with the Alabama Department of Insurance on September 24, 2001. After several amendments were made, the Company was granted permission to execute the proposed agreement. The document was approved by the Alabama Commissioner of Insurance on April 4, 2002.

CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by all persons representing the Company during the course of this examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and evaluation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, F. Blase Abreo, Douglas T. Brown, and Jayne A. Simms, Examiners; and Matthew P. Merlino, FCAS, MAAA, FCA, Consulting Actuarial Examiner; all representing the Alabama Department of Insurance, participated in this examination of *Safeway Insurance Company of Alabama, Inc.*

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Anne L. Ward", written over a horizontal line.

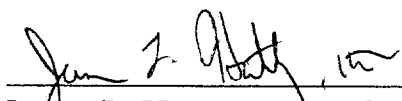
Anne L. Ward, AFE
Examiner-in-Charge
State of Alabama
Department of Insurance

April 19, 2002

COMPLIANCE WITH STATE OF ALABAMA AND NAIC STANDARDS
AND PROCEDURES

The Alabama Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regional Accreditation Standards.

I have reviewed the examination workpapers and examination report, and the December 31, 2000 examination of Safeway Insurance Company of Alabama, Inc., Vestavia Hills, Alabama, was performed in a manner consistent with the standards and procedures required by the State of Alabama Department of Insurance, and the National Association of Insurance Commissioners.



James L. Hattaway, III, CFE
Insurance Examinations Supervisor
State of Alabama
Department of Insurance.



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
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D. DAVID PARSONS
COMMISSIONER
DEPUTY COMMISSIONER
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CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
LICENSING MANAGER
JIMMY W. GUNN

October 16, 2001

Mr. Robert M. Bordeman
Safeway Insurance Company of Alabama, Inc.
100 Williamsburg Office Park
Vestavia Hills, AL 35216

Re: Financial Examination As Of December 31, 2000

Dear Mr. Bordeman:

This letter is to inform you of a financial examination of your company called by the Alabama Department of Insurance and to authorize Anne Ward, AFE, Examiner, to conduct the examination. This authorization is pursuant to the instructions of Alabama Insurance Commissioner, D. David Parsons, and in compliance with the statutory requirements of the State of Alabama and resolutions adopted by the National Association of Insurance Commissioners.

Your examination is to commence on or about November 19, 2001, and will be conducted primarily in your offices. The expected duration of the examination is approximately two and one-half months. Preliminary planning of your examination will first begin in the offices of the Alabama Department of Insurance. The examiner will arrive in your offices on or after this date. You will be contacted by Ms. Ward regarding the exact arrival date at your offices.

The Alabama Insurance Department has adopted work policies and rules governing work hours, leave and unacceptable conduct including sexual harassment. If you have any question about our examiner's conduct at your offices, please contact me immediately.

As part of your examination, the enclosed internal control and information systems questionnaire is required to be completed for review by our examiner. Please complete and return the questionnaire to this Department within 30 days, addressed to the attention of the Examiners' Division. The questions may be answered on the questionnaire itself or on a separate sheet if additional explanation is required. If possible, your CPA's workpapers and a representative of your CPA firm should be available the week of November 19, 2001, for review at your offices.

Invoices covering examination fees and related expenses will be submitted to the appropriate company official in accordance with standard Departmental policy. Payment of any examination charges so invoiced are due within two business days following presentation of the invoice.

Sincerely,

Richard L. Ford, CFE
Chief Examiner and Acting Deputy Commissioner

RLF:dk
Enclosures

cc: Jack M. Brown, CFE
Anne Ward, AFE
Glenda Daniel

EQUAL OPPORTUNITY EMPLOYER



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
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JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
LICENSING MANAGER
JIMMY W. GUNN

October 16, 2001

Mr. Matthew P. Merlino
Merlino & Schofield, Inc.
3060 Holcomb Bridge Road, NW, Suite J
Norcross, GA 30071

**Re: Examination of Safeway Insurance Company of Alabama, Inc.
As of December 31, 2000**

Dear Mr. Merlino:

This letter is to request and authorize your participation in the examination of the above referenced company for the purpose of computing reserves and making other valuations in your usual manner.

The examination will begin on or about November 19, 2001. The examination for this company is being conducted in the company's offices at 100 Williamsburg Office Park, Vestavia Hills, AL 35216, and will cover the period ending December 31, 2000. The expected duration of the examination is approximately two and one-half months.

The Examiner-in-Charge will be Ms. Anne Ward, AFE. Please contact her at the company after the beginning date to coordinate the scheduling of your portion of this examination. The company's telephone number is (205) 823-6900.

If your schedule does not permit you to accept this assignment, please let me know so that other arrangements can be made.

Thank you for your assistance in this matter.

Sincerely,

Richard L. Ford, CFE
Chief Examiner and Acting Deputy Commissioner

RLF:dk

cc: Jack M. Brown, CFE
Anne Ward, AFE
Glenda Daniel

EQUAL OPPORTUNITY EMPLOYER



DON SIEGELMAN
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STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
LICENSING MANAGER
JIMMY W. GUNN

December 4, 2001

Deloitte & Touche
Two Prudential Plaza
180 North Stetson Avenue
Chicago, IL 60601-6779

Re: Request for CPA Workpapers in December 31, 2000 Examination of
Safeway Insurance Company of Alabama, Inc.


Dear Sir:

We received your November 12, 2001 letter regarding the request for inspection of the workpapers prepared in the referenced examination.

The request to inspect the workpapers is made by your client pursuant to Section 13 of Regulation 100. The letter of qualification your firm provided your insurer client should consent and agree to make available for review by the Commissioner, his designee or his appointed agent, the workpapers prepared in your examination. This agreement and consent is required by Section 12 of Regulation 100. Any copies of your firm's workpapers included in the Department's files will remain confidential to the extent provided under Alabama law.

If you have any questions, please advise.

Sincerely,


Jack M. Brown
Assistant Chief Examiner

cc: Richard Ford
Anne L. Ward, Examiner-in-charge



DON SIEGELMAN
GOVERNOR

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MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

April 24, 2002

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Robert M. Bordeman
Safeway Insurance Company of Alabama, Inc.
100 Williamsburg Office Park
Vestavia Hills, AL 35216

RE: Safeway Insurance Company of Alabama, Inc.
Report of Examination as of December 31, 2000

Dear Mr. Bordeman:

Enclosed is a copy of the Report of Examination of the above-cited company as of December 31, 2000. In the event that you have any objections to this report, please advise this Department in writing within twenty (20) days, and a hearing will be scheduled, at which time you may present your arguments regarding any objections.

Unless we hear from you within the above-stated time, the report will be filed as a public document. Once filed, no annual or quarterly statements, or other material reflecting the statutory financial condition of the company may be filed with or accepted by this Department if those statements conflict with any basis of calculation to establish the value of any asset, liability, or capital account in the report.

Sincerely,

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

Enclosure

cc: Jack M. Brown, CFE
Anne L. Ward, AFE
Glenda Daniel

SAFEWAY INSURANCE COMPANY
OF ALABAMA

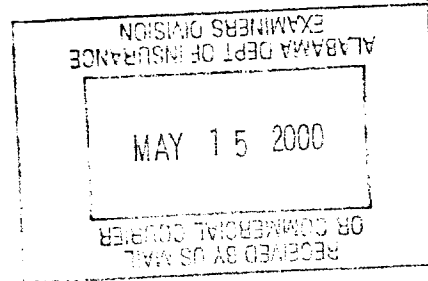
100 WILLIAMSBURG OFFICE PARK • VESTAVIA HILLS, ALABAMA 35216
(205) 823-6900

SAFE IN EVERY WAY



May 13, 2002

Mr. Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner
State of Alabama
Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, Alabama, 36130-3351



Jack B.
Jim H.
Anne W.
Blende D.

*Re: Safeway Insurance Company of Alabama, Inc.
Report of Examination as of December 31, 2000*

Dear Commissioner Ford:

The Management of the Safeway Insurance Company of Alabama, Inc. has received and reviewed the Report of Examination as referenced above. In the course of our review, one finding in particular, Note 5 - Other Expenses, still poses to our organization a level of uncertainty as how to properly apply this finding in future periods.

This finding was initially discussed with the field examiners during the drafting stage of the exam report, but upon further reflection, and consideration as to how this interpretation could potentially impact the financial reporting process for every company within the Safeway Insurance Group, we respectfully request that further discussion be held on this finding before the Examination Report is filed as a public document.

Our desire would be to organize, at the Department's convenience, a meeting, either by conference call or in person, whereby representatives of the Department and Safeway could further the discussion of this matter without the formality of a hearing.

Your consideration of this request is appreciated.

Sincerely,

Robert M. Bordeman
President



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
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GENERAL COUNSEL
MICHAEL A. BOWNES
LICENSING MANAGER
JIMMY W. GUNN

BEFORE THE INSURANCE COMMISSIONER
OF THE
STATE OF ALABAMA

IN THE MATTER OF:)
FINANCIAL CONDITION EXAMINATION OF)
SAFEWAY INSURANCE COMPANY OF ALABAMA INC))
AS OF DECEMBER 31, 2000)

ORDER

ON THE 5th day of June, 2002, the above entitled cause came on for consideration by the Insurance Commissioner, pursuant to Regulation 103. The Insurance Commissioner, having fully considered and reviewed the Examination Report together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers, finds and states as follows, to-wit:

JURISDICTION

1. That the Insurance Commissioner has jurisdiction of this cause, pursuant to the provisions of the Alabama Insurance Code.
2. That Safeway Insurance Company of Alabama, Inc. is a domestic insurer licensed for property and miscellaneous casualty, excluding official surety bonds in the State of Alabama.

FINDINGS OF FACT

1. That on April 19, 2002, the verified Financial Condition Examination Report of Safeway Insurance Company of Alabama, Inc. was filed with the Insurance Department.
2. That following receipt of the December 31, 2000 Examination Report, the Company was afforded a reasonable opportunity of not more than twenty (20) days to make a written submission or written rebuttal with respect to any matters contained in the Examination Report.
3. That Regulation 103 provides that within twenty (20) days of the end of the period allowed for the receipt of written submissions or written rebuttals, the Insurance Commissioner shall fully consider and review the report, together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers and enter an order. The order shall either: (i) adopt the examination report as filed or with modifications or corrections, including an order that the company take actions to cure any violations; (ii) reject the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation or information; or (iii) call for an investigatory hearing for purposes of obtaining additional documentation, data, information and testimony.
4. Regulation 103 requires the company to file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders within thirty (30) days of the issuance of the adopted report.

CONCLUSIONS OF LAW

1. That the December 31, 2000 Financial Condition Examination Report of Safeway Insurance Company of Alabama, Inc. shall be and hereby is Adopted by the Insurance Commissioner, pursuant to Regulation 103.

ORDER

IT IS THEREFORE ORDERED by the Commissioner of Insurance as follows:

1. That the December 31, 2000 Financial Condition Examination Report of Safeway Insurance Company of Alabama, Inc. is hereby Adopted.
2. That Safeway Insurance Company of Alabama, Inc. file an affidavit with the Alabama Department of Insurance stating that a copy of the adopted report and related orders were reviewed by the board of directors within thirty (30) days of the issuance of the adopted report.
3. That Safeway Insurance Company of Alabama, Inc. file an affidavit with the Department of Insurance within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC. An affidavit form is attached.
4. That Safeway Insurance Company of Alabama, Inc. shall comply with the recommendations set forth in the Report of Examination, and that failure by Safeway Insurance Company of Alabama, Inc. to so comply may result in sanctions or administrative action; and further, that Safeway Insurance Company of Alabama, Inc. shall file with the Department of Insurance within thirty (30) days of the order a statement signed by an appropriate official of the company stating the corrective action taken to comply with the recommendations made in the Report of Examination.

WITNESS My Hand and Official Seal this 5th day of June 2002.

(STATE SEAL)



D. David Parsons
Insurance Commissioner
201 Monroe Street, Ste 1700
Montgomery, Alabama 36130
(334) 269-3550

CERTIFICATION

I, _____, _____ (office) of
_____ Company, do hereby certify that the Report of Examination of
_____ Company as of _____, _____, was filed with all states in
which _____ Company is licensed, and with the office of the National Association of
Insurance Commissioners.

By: _____

Sworn and subscribed before the undersigned authority on the ____ day of _____, 2002.

Seal

Notary



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
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JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

July 17, 2002

Mr. Robert M. Bordeman
President
Safeway Insurance Company of Alabama, Inc.
100 Williamsburg Office Park
Vestavia Hills, AL 35216

Dear Mr. Bordeman:

I have enclosed a copy of the June 5, 2002, Commissioner's Order relating to the financial examination of Safeway Insurance Company of Alabama, Inc. as of December 31, 2000.

This Order requires that the company file an affidavit stating that a copy of the adopted report and related orders was reviewed by the board of directors within thirty (30) days of the issuance of the adopted report. The Order further requires that Safeway Insurance Company of Alabama, Inc. file an affidavit within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC.

Your company is requested to respond to this office within 10 days with a statement signed by an appropriate official of the company indicating the corrective action taken by the company to comply with the recommendations made in the Report of Examination.

These affidavits and responses have not been received by the Department of Insurance as of this date. You are instructed to file these affidavits and responses in accordance with the Commissioner's Order within ten (10) days of the receipt of this letter to avoid further action being taken by the Department of Insurance.

Sincerely,

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

Enclosures

cc: Jack Brown, CFE
Anne L. Ward, AFE
Glenda Daniel



DON SIEGELMAN
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BEFORE THE INSURANCE COMMISSIONER
OF THE
STATE OF ALABAMA

IN THE MATTER OF:)
FINANCIAL CONDITION EXAMINATION OF)
SAFEWAY INSURANCE COMPANY OF ALABAMA INC))
AS OF DECEMBER 31, 2000)

ORDER

ON THE 5th day of June, 2002, the above entitled cause came on for consideration by the Insurance Commissioner, pursuant to Regulation 103. The Insurance Commissioner, having fully considered and reviewed the Examination Report together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers, finds and states as follows, to-wit:

JURISDICTION

1. That the Insurance Commissioner has jurisdiction of this cause, pursuant to the provisions of the Alabama Insurance Code.
2. That Safeway Insurance Company of Alabama, Inc. is a domestic insurer licensed for property and miscellaneous casualty, excluding official surety bonds in the State of Alabama.

FINDINGS OF FACT

1. That on April 19, 2002, the verified Financial Condition Examination Report of Safeway Insurance Company of Alabama, Inc. was filed with the Insurance Department.
2. That following receipt of the December 31, 2000 Examination Report, the Company was afforded a reasonable opportunity of not more than twenty (20) days to make a written submission or written rebuttal with respect to any matters contained in the Examination Report.
3. That Regulation 103 provides that within twenty (20) days of the end of the period allowed for the receipt of written submissions or written rebuttals, the Insurance Commissioner shall fully consider and review the report, together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers and enter an order. The order shall either: (i) adopt the examination report as filed or with modifications or corrections, including an order that the company take actions to cure any violations; (ii) reject the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation or information; or (iii) call for an investigatory hearing for purposes of obtaining additional documentation, data, information and testimony.
4. Regulation 103 requires the company to file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders within thirty (30) days of the issuance of the adopted report.

CONCLUSIONS OF LAW

1. That the December 31, 2000 Financial Condition Examination Report of Safeway Insurance Company of Alabama, Inc. shall be and hereby is Adopted by the Insurance Commissioner, pursuant to Regulation 103.

ORDER

IT IS THEREFORE ORDERED by the Commissioner of Insurance as follows:

1. That the December 31, 2000 Financial Condition Examination Report of Safeway Insurance Company of Alabama, Inc. is hereby Adopted.
2. That Safeway Insurance Company of Alabama, Inc. file an affidavit with the Alabama Department of Insurance stating that a copy of the adopted report and related orders were reviewed by the board of directors within thirty (30) days of the issuance of the adopted report.
3. That Safeway Insurance Company of Alabama, Inc. file an affidavit with the Department of Insurance within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC. An affidavit form is attached.
4. That Safeway Insurance Company of Alabama, Inc. shall comply with the recommendations set forth in the Report of Examination, and that failure by Safeway Insurance Company of Alabama, Inc. to so comply may result in sanctions or administrative action; and further, that Safeway Insurance Company of Alabama, Inc. shall file with the Department of Insurance within thirty (30) days of the order a statement signed by an appropriate official of the company stating the corrective action taken to comply with the recommendations made in the Report of Examination.

WITNESS My Hand and Official Seal this 5th day of June 2002.

(STATE SEAL)



D. David Parsons
Insurance Commissioner
201 Monroe Street, Ste 1700
Montgomery, Alabama 36130
(334) 269-3550

CERTIFICATION

I, _____, _____ (office) of
_____ Company, do hereby certify that the Report of Examination of
_____ Company as of _____, _____, was filed with all states in
which _____ Company is licensed, and with the office of the National Association of
Insurance Commissioners.

By: _____

Sworn and subscribed before the undersigned authority on the ____ day of _____, 2002.

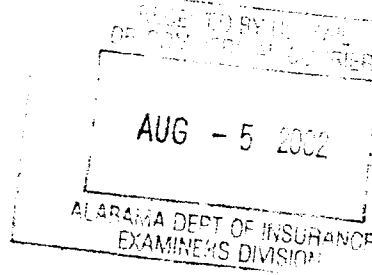
Seal

Notary

SAFEWAY INSURANCE COMPANY
OF ALABAMA

100 WILLIAMSBURG OFFICE PARK • VESTAVIA HILLS, ALABAMA 35216
(205) 823-6900

SAFE IN EVERY WAY



July 24, 2002

VIA FACSIMILE & U S POSTAL SYSTEM

Mr. Richard L. Ford, CFE
State of Alabama
Department of Insurance
201 Monroe Street
Suite 1700
Montgomery, Alabama 36130-3351

Re: *Safeway Insurance Company of Alabama, Inc.*
Report of Financial Examination as of December 31, 2000

Dear Mr. Ford:

I am in receipt of your letter dated July 17, 2002 pertaining to the above referenced examination.

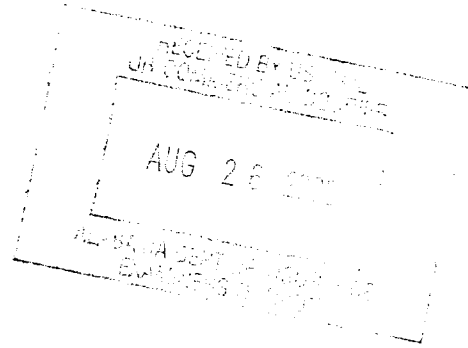
Please be advised that at this time, a meeting is scheduled for August 19, 2002 to further discuss the findings of the exam report with Commissioner Parsons and other Department members. This meeting will be held at the Department's offices in Montgomery. Accordingly, I have not filed the affidavits requested in your letter at this time as I chose to wait until we finalized the discussion of the open matter. If this decision is inappropriate, please advise, otherwise I will comply at the conclusion of the open matters. Thank you.

Sincerely,

Robert M. Bordeman
President

August 22, 2002

Mr. Richard Ford, Chief Examiner
Alabama Department of Insurance
Montgomery.



Mr. Ford:

On advise of Mr. Jim Hattaway, I have enclosed the edited pages of **Safeway Insurance Company's** report. These pages will replace the report pages; however, there are no changes in the page numbering.

If you have any question please call me.

Thanks.

Blase Abreo

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating growth and financial condition of the Company for the period under review:

<u>Period Ending</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Direct Premiums Written</u>	<u>Direct Losses Incurred</u>
12/31/2000*	\$23,671,935	\$11,365,724	\$12,306,211	\$16,888,487	\$7,568,145
12/31/1999	20,215,393	8,527,912	11,687,481	14,491,589	8,640,485
12/31/1998	20,023,569	10,403,606	9,619,962	19,725,767	12,013,708
12/31/1997	23,920,710	8,843,335	15,077,375	17,323,848	10,204,479
12/31/1996	22,251,864	7,249,074	15,002,790	13,779,143	8,892,591
12/31/1995*	21,826,768	6,189,755	15,637,013	13,167,820	7,533,324

* Per examination. Amounts for the remaining years were obtained from Company copies of filed Annual Statements.

MARKET CONDUCT ACTIVITIES

Territory

At the examination date, the Company was licensed to transact business in the following four states:

Alabama Arkansas Kentucky Tennessee

The Certificates of Authority for the respective jurisdictions were inspected for the period under review and found to be in order. Although the Company was licensed to write business in all the states, Alabama was the only state in which premiums were written during the examination period.

Plan of Operation

During the examination period, the Company concentrated on underwriting private passenger auto liability and auto physical damage insurance in the standard and non-standard markets. All of the Company's written premiums during the examination period were generated by Trigon, Inc. In accordance with the general agency agreement, Trigon, Inc., receives a commission of 22.5% on all direct premiums written. This agreement was discussed in detail in the "MANAGEMENT AND

SAFeway INSURANCE COMPANY OF ALABAMA, INC.
STATEMENT OF LIABILITIES, SURPLUS AND OTHER FUNDS
For the Year Ended December 31, 2000

	<u>Current Statement Date</u>	<u>December 31, Prior Year</u>
LIABILITIES		
Losses (Note 3)	\$ 5,159,736	\$ 4,338,274
Loss adjustment expenses (Note 3)	1,996,165	1,626,635
Contingent commissions and other similar charges (Note 4)		
Other expenses (Note 5)	176,773	143,378
Taxes, licenses and fees	254,626	131,789
Federal and foreign income taxes (Note 6)	265,487	175,000
Unearned premiums	2,347,065	1,232,490
Amounts withheld or retained by company for account of others (Note 7)		
Drafts outstanding (Note 8)	1,003,639	803,968
Payable to parent, subsidiaries and affiliates	28,192	10,880
Aggregate write-ins for liabilities:		
Commission payable (Note 9)	<u>134,041</u>	<u>65,498</u>
Total liabilities	<u>\$ 11,365,724</u>	<u>\$ 8,527,912</u>
SURPLUS AND OTHER FUNDS		
Common capital stock	\$ 3,000,000	\$ 3,000,000
Gross paid in and contributed surplus	6,000,000	6,000,000
Unassigned funds (surplus) (Note 11)	<u>3,306,211</u>	<u>2,687,481</u>
Surplus as regards policyholders	<u>12,306,211</u>	<u>11,687,481</u>
TOTALS	<u>\$ 23,671,935</u>	<u>\$ 20,215,393</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTERGRAL PART THEREOF.

SAFEWAY INSURANCE COMPANY OF ALABAMA, INC.

STATEMENT OF INCOME

For the Years Ended December 31, 2000, 1999, 1998, 1997 and 1996

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
<u>Underwriting income</u>					
Premiums earned	\$ <u>15,773,912</u>	\$ <u>15,062,518</u>	\$ <u>19,199,786</u>	\$ <u>16,768,245</u>	\$ <u>13,725,086</u>
<u>Deductions:</u>					
Losses incurred	\$ 8,389,607	\$ 7,813,165	\$ 12,933,476	\$ 10,675,421	\$ 8,684,706
Loss expenses incurred	2,303,831	1,376,511	2,132,419	2,138,761	2,106,427
Other underwriting expense incurred (Notes 10)	<u>4,090,351</u>	<u>4,527,497</u>	<u>5,863,162</u>	<u>5,244,045</u>	<u>4,110,905</u>
Total underwriting deductions	\$ <u>14,783,789</u>	\$ <u>13,717,173</u>	\$ <u>20,929,057</u>	\$ <u>18,058,227</u>	\$ <u>14,902,038</u>
Net underwriting gain or (loss)	\$ <u>990,123</u>	\$ <u>1,345,345</u>	\$ <u>(1,729,271)</u>	\$ <u>(1,289,982)</u>	\$ <u>(1,176,952)</u>
<u>Investment Income</u>					
Net investment income earned	\$ 1,217,560	\$ 1,079,003	\$ 1,101,785	\$ 1,246,924	\$ 1,206,792
Net realized capital gains or (losses)	<u>12,537</u>	<u>14,484</u>	<u>115,143</u>	<u>(2,999)</u>	<u>4,559</u>
Net investment gain (loss)	\$ <u>1,230,097</u>	\$ <u>1,093,487</u>	\$ <u>1,216,928</u>	\$ <u>1,243,925</u>	\$ <u>1,211,351</u>
<u>Other income</u>					
Net gain or (loss) from agents' or premium balances charged off	1,604	1,159	(98,047)		
Finance and service charges not included in premiums	<u>0</u>	<u>0</u>	<u>127,010</u>	<u>0</u>	<u>0</u>
Total other income	\$ <u>1,604</u>	\$ <u>1,159</u>	\$ <u>28,963</u>	\$ <u>0</u>	\$ <u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes	\$ 2,221,824	\$ 2,439,991	\$ (483,380)	\$ (46,057)	\$ 34,399
Federal and foreign income taxes Incurred	<u>448,282</u>	<u>402,512</u>	<u>(84,356)</u>	<u>(134,458)</u>	<u>(48,085)</u>
NET INCOME	\$ <u>1,773,542</u>	\$ <u>2,037,470</u>	\$ <u>(399,024)</u>	\$ <u>88,401</u>	\$ <u>82,484</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.

SAFEWAY INSURANCE COMPANY OF ALABAMA, INC.
CAPITAL AND SURPLUS ACCOUNT
For Years Ended December 31, 2000, 1999, 1998, 1997 and 1996

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
CAPITAL AND SURPLUS ACCOUNT					
Surplus as regards policyholders, December 31, prior year	\$ <u>11,687,481</u>	\$ <u>9,619,962</u>	\$ <u>15,077,375</u>	\$ <u>15,002,790</u>	\$ <u>15,637,013</u>
GAINS AND (LOSSES) IN SURPLUS					
Net income	\$ 1,773,542	\$ 2,037,479	\$ (399,024)	\$ 88,401	\$ 82,484
Change in nonadmitted assets	6,068	30,040	(58,389)		14,064
Dividends to stockholders (cash) (Note 10)	(1,160,880)	0	(5,000,000)	(13,816)	0
Extraordinary amounts of taxes for prior years					(97,771)
Aggregate write-ins for gains and losses in surplus: Cumulative effect of change in accounting policy	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(633,000)</u>
Change in surplus as regards policyholders for the year	\$ <u>618,730</u>	\$ <u>2,067,519</u>	\$ <u>(5,457,413)</u>	\$ <u>74,585</u>	\$ <u>(634,223)</u>
Surplus as regards policyholders, December 31 current year	\$ <u>12,306,211</u>	\$ <u>11,687,481</u>	\$ <u>9,619,962</u>	\$ <u>15,077,375</u>	\$ <u>15,002,790</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTERGRAL PART THEREOF.

	Indicated Ultimate Incurred Loss Development	Indicated Ultimate Paid Loss Development	Carried Ultimate (excluding Adjusting & Other Expenses)
Auto Liability 1991-2000	\$46,695,438	\$46,829,559	\$47,413,000
Auto Physical Damage 1999-2000	7,225,947	7,173,313	7,056,000
Total 1999-2000	\$53,921,385	\$54,002,872	\$54,469,000

Given the independent projections noted above and the appointed actuary's original work that was not affected by the errors in the incurred loss data, the actuarial examiners believe, in consideration of the other procedures the examiners performed, that the Company's carried reserve levels were reasonable.

Note 4 – Contingent commissions and other similar charges **\$ 0**

The captioned liability is the same as reported by the Company in its 2000 Annual Statement. This examination has determined that commissions payable in the amount of \$134,041, were reported under the *Aggregate write-ins for liabilities* caption on the balance sheet. It was noted that NAIC Annual Statement Instructions for 2001, requires this liability to be reported as "*Commissions payable, contingent commissions and other similar charges.*" Further discussion on this matter is included in this section under *Note 9 – Aggregate write-ins for liabilities: Commissions payable.*

Note 5 – Other expenses **\$176,773**

The captioned liability is the same as reported in the Company's 2000 Annual Statement. The examiners identified \$18,509 in expenses that were incurred, but the Company had not accrued the same at year-end. Due to immateriality, no changes were made to the financial statements in this report.

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Note 6 – Federal and foreign income taxes **\$265,487**

The captioned amount is the same as reported in the Company's 2000 Annual

Since the Company did not have an approved management agreement in place during the examination period, payment of management fees was not appropriate. Consequently, the \$1,160,880 amount paid in 2000, to the parent company for management fees, was reclassified to dividends paid to the stockholder. It was also noted that management fees concerning all management agreements, service contracts, and all other cost sharing arrangements were not reported on *Schedule Y – Part 2* of the Annual Statement in accordance with NAIC instructions thereto.

It was noted that the *Cost Allocation Agreement*, executed by Company officers on January 1, 2002, was granted final approval by the Alabama Insurance Commissioner on April 4, 2002.

Note 11 - Unassigned funds (surplus)

\$3,306,211

The captioned amount is the same as reported in the Company's 2000 Annual Statement.

This examination had identified some immaterial differences, which have been reported in the NOTES TO FINANCIAL STATEMENTS section of this report. Due to the immateriality of the differences, no changes were made to the financial statements in this report.

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CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of contingent liabilities and pending litigation included an inspection of representations made by management, a review of a report to the independent CPAs on pending litigation made by Company counsel, and a general review of the Company's records and files conducted during the examination, including a review of claims. This review did not disclose items that would have a material affect on the Company's financial position in the event of an adverse outcome.

It was noted that the Company did not reserve any funds for legal actions brought

owes to the agents at year-end.

Other expenses – Page 27

It is recommended that the Company establish adequate accruals (for obligations not yet paid) in its financial statements in accordance with NAIC Annual Statement Instructions.

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Federal and foreign income taxes – Page 27

It is recommended that the Company comply with Section 27-29-5(b), Code of Alabama 1975, as amended, which states that “transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit.”

It is further recommended that the Company comply with Alabama Department of Insurance *Regulation No. 55*, and submit the tax allocation agreement to the Department of Insurance for approval by the Commissioner.

Amounts withheld or retained by company for account of others – Page 28

It is recommended that the Company establish and maintain a liability for unclaimed property until the appropriate time frame has elapsed to remit said funds to the Alabama Department of Revenue, in accordance with Alabama Department of Insurance *Regulation No. 66*.

It is recommended that the Company comply with Section 35-12-31, Code of Alabama 1975, as amended, relating to the remittance of unclaimed funds to the ALDOR five years after the moneys became due and payable.

It was noted that similar recommendations were made in the previous examination



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

D. DAVID PARSONS
COMMISSIONER
ASSISTANT COMMISSIONER
TREY GRANGER
DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

August 27, 2002

Mr. Robert M. Bordeman
President
Safeway Insurance Co of Alabama, Inc.
100 Williamsburg Office Park
Vestavia Hills, AL 35216

Re: Report of Examination as of December 31, 2000

Dear Mr. Bordeman:

Enclosed are the edited pages of Safeway's Report of Examination as of December 31, 2000. These pages will replace the report pages; however, there are no changes in the page numbering.

If you have any question, please call me.

Sincerely,

Richard L. Ford, CFE
Chief Examiner and
Acting Deputy Commissioner

RLF:dk

Enclosure



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
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JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

September 9, 2002

Mr. Robert M. Bordeman
President
Safeway Insurance Co of Alabama, Inc.
100 Williamsburg Office Park
Vestavia Hills, AL 35216

Re: Report of Examination as of December 31, 2000

Dear Mr. Bordeman:

Enclosed are the edited pages of Safeway's Report of Examination as of December 31, 2000.
These pages will replace the report pages.

If you have any question, please call me.

Sincerely,

Richard L. Ford, CFE
Chief Examiner and
Acting Deputy Commissioner

RLF:dk

Enclosure

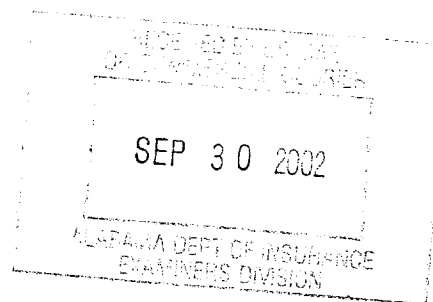
SAFeway INSURANCE GROUP

790 PASQUINELLI DRIVE • WESTMONT, IL 60559-1254
(630) 887-8300



September 24, 2002

Mr. Richard I. Ford, CFE
Acting Deputy Commissioner
Alabama Department of Insurance
201 Monroe Street
Suite 1700
Montgomery, Alabama 36130-3351



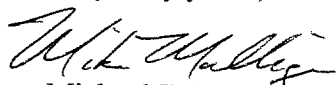
Re: Financial Examination of Safeway Insurance Company of Alabama

Dear Mr. Ford:

Pursuant to the Order of the financial examination of Safeway Insurance Company of Alabama as of December 31, 2000, please find enclosed affidavits executed by the Directors of Safeway Insurance Company of Alabama. I have also enclosed an affidavit certifying that the adopted report has been filed with the NAIC and all licensing states.

Should you have any questions please do not hesitate to contact me.


Very truly yours,


Michael T. Mulligan
Corporate Counsel

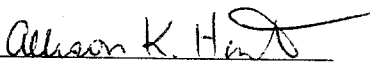
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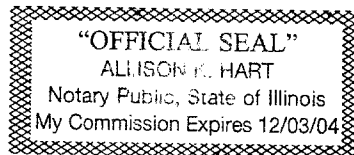
CERTIFICATION

I, Michael T. Mulligan, Corporate Counsel of Safeway Insurance Company of Alabama, do hereby certify that the Report of Examination of Safeway Insurance Company of Alabama as of December 31, 2000 was filed with all states in which Safeway Insurance Company of Alabama is licensed and with the office of the National Association of Insurance Commissioners.

By 
Corporate Counsel

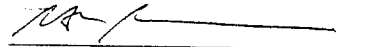
Sworn and subscribed before the undersigned authority the 24th day of September, 2002.


Notary




CERTIFICATION

I, Robert M. Bordeman, the undersigned Director of Safeway Insurance Company of Alabama do hereby certify that I have received and reviewed the Report of Examination and related orders of said Company made as of December 31, 2000 by a representative of the Insurance Commissioner of the State of Alabama.

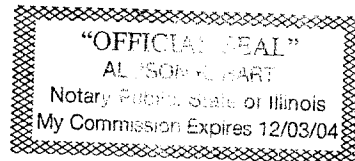


Director

Sworn and subscribed before the undersigned authority on the 24th day of September, 2002.



Notary



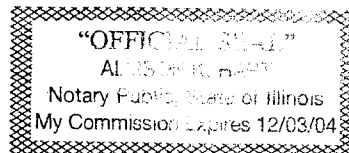
CERTIFICATION

I, William J. Parrillo, the undersigned Director of Safeway Insurance Company of Alabama do hereby certify that I have received and reviewed the Report of Examination and related orders of said Company made as of December 31, 2000 by a representative of the Insurance Commissioner of the State of Alabama.

William J. Parrillo
Director

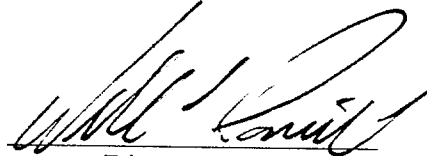
Sworn and subscribed before the undersigned authority on the 24th day of September, 2002.

Allison K. Hunt
Notary

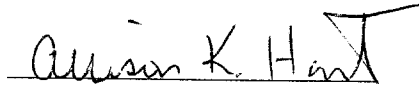


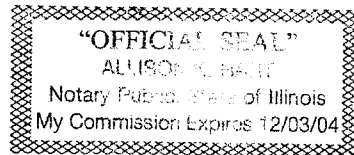
CERTIFICATION

I, William G. Parrillo, the undersigned Director of Safeway Insurance Company of Alabama do hereby certify that I have received and reviewed the Report of Examination and related orders of said Company made as of December 31, 2000 by a representative of the Insurance Commissioner of the State of Alabama.


Director

Sworn and subscribed before the undersigned authority on the 24th day of September, 2002.


Notary

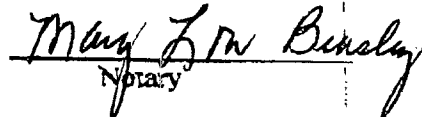


CERTIFICATION

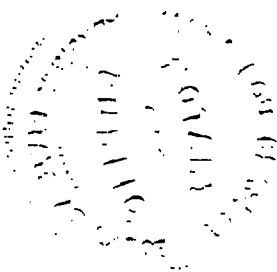
I, Robert P. Wise, the undersigned Director of Safeway Insurance Company of Alabama do hereby certify that I have received and reviewed the Report of Examination and related orders of said Company made as of December 31, 2000 by a representative of the Insurance Commissioner of the State of Alabama.


Director

Sworn and subscribed before the undersigned authority on the 24th day of September, 2002.


Notary

MY COMMISSION EXPIRES 02-28-2005



S A F E W A Y I N S U R A N C E G R O U P

790 PASQUINELLI DRIVE • WESTMONT, IL 60559-1254
(630) 887-8300

SAFE IN EVERY WAY



November 15, 2002

Mr. Richard I. Ford, CFE
Acting Deputy Commissioner
Alabama Department of Insurance
201 Monroe Street
Suite 1700
Montgomery, Alabama 36130-3351



Re: Financial Examination of Safeway Insurance Company of Alabama

Dear Mr. Ford:

Pursuant to the Order of the financial examination of Safeway Insurance Company of Alabama as of December 31, 2000, please find enclosed the corrective action taken by Safeway to comply with the recommendations made in the Report of Examination.

Very truly yours,

Michael T. Mulligan
Corporate Counsel

enc.

CORRECTIVE ACTION PLAN

Corporate Records

As recommended, the Company will hold its annual meeting of stockholders in Birmingham, Alabama.

Tax Allocation Agreement & Cost Allocation Agreement

As recommended, both agreements have been filed with the Department for approval.

Also, inter-company expense information was inadvertently left out of Schedule Y-Part 2 of the 2001 Annual Statement. The Company will comply with NAIC instructions in future statements.

Conflict of Interest

As recommended, the Company will review its conflict of interest policy and make the necessary changes when adopting a new more formal policy.

Fidelity Bond and Other Insurance

Documentation of insurance coverage was provided to the examiners upon their request. This documentation is now kept on file in our Alabama office per Alabama code.

Accounts and Records

Upon completion of company records in the corporate home office, copies of all records are being maintained in our Alabama office per Alabama code.

Additionally, the Company understands Regulation No. 118 and will comply with requests within ten working days.

Bonds

Effective in 2001, the Company is in compliance with SSAP No. 26, paragraph 4.

Also, the Company is in accordance with SVO guidelines in maintaining evidence to support continued eligibility for Provisionally Exempt status on all investments that have been so designated.

Agents' Balances

The ledger balance for Agents' Balances will be corrected and kept in balance with system reports. Per page 2 of the Annual Statement, future installment billings will be split out on line 10.2 per NAIC instructions.

Losses and Loss Adjustment Expenses

The proper appointed actuary has been correctly identified in the 2001 Annual Statement.

In 2001, a complete reconciliation of the actuarial database to the Annual Statement Schedule P was performed.

The Company will confer with actuarial staff about the possibility of including actuarial work papers in the Actuarial Opinion.

Effective in 2001, the Company is in compliance with SSAP No. 55.

Contingent Commissions

Per the 2000 Annual Statement instructions, only contingent commissions are to appear on Page 3, Line 3. Per the NAIC instructions, commission payable is not the same liability. Since there is no designated line in the balance sheet, commission payable must be written-in on Page 3, Line 22. Normally in working with agents on an account current basis, monthly commissions would be netted against monthly premiums written and placed in Agents' Balances on Page 2, Line 10.1, but the Company's Alabama business is considered direct bill to the insured and the commissions must be established as a payable to the agent.

With codification, the 2001 Annual Statement instructions have combined the different type of commissions and placed them both on Page 3, Line 4. Furthermore, the commission payable for 2000 was reclassified for codification purposes. The Company has followed the NAIC guidelines and believes the examiners are applying 2001 Annual Statement instructions on the 2000 Annual Statement.

Commissions Payable

The difference between the drafts outstanding listing and the general ledger was corrected in 2001. The Company is accurately reporting its liability for commissions payable.

Other Expenses

In 2001, the Company accurately reported its liability for obligations not yet paid in accordance with NAIC instructions.

Federal and Foreign Income Taxes

As stated above, the Tax Allocation Agreement has been filed with the Department.

Amounts Withheld or Retained

The Company is in the process of complying with the Alabama escheat laws. An unclaimed property report will be filed along with all appropriate funds being remitted to the State. Future unclaimed property will be held in a separate ledger account.

Drafts Outstanding

The difference between the drafts outstanding listing and the general ledger was corrected in January 2001. The Company is accurately reporting its liability for drafts outstanding in accordance with NAIC instructions.

Dividends to Stockholders

As recommended, all management agreements have been filed with the Department, which should eliminate any need to reclassify management fees and administrative expenses.